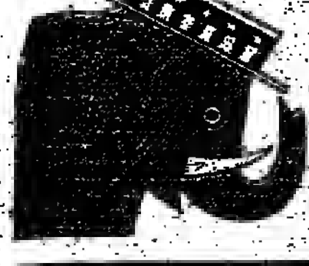
FINANCIAL TIMES



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Starting to be resigned to defeat
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TOMORROW'S
Weekend FT
The man who became a brand

World Business Newspaper http://www.FT.com FRIDAY OCTOBER 18 1996

SGS-Thomson shares jump as profits rise 2.6%

Shares in SGS-Thomson Microelectronics rose nearly 10 per cent in Paris as the Franco-Italian semiconductor manufacturer unveiled third-quarter results up 2.6 per cent to $132.4m. The company, the world's 12th largest chip manufacturer, said the results showed it was continuing to perform well in difficult market conditions. Page 17

Survey lists riskiest countries: Russia is the riskiest country in the world to do business in, according to a survey by London-based corporate intelligence and research consultancy, Merchant International Group. Venezuela and Mexico were the second and third. Page 16

French civil servants strike: A third of France's 1.88m civil servants backed unions' strike calls and stayed away from work to protest against government plans to restrain their pay and cut their jobs. Page 3

Fed says US growth slowing: The US Federal Reserve said economic growth appeared to have slowed in recent months to 0.2 per cent last month compared with 0.4 per cent in August, in line with its projections. Page 4

UK gun industry seeks compensation: The UK gun industry demanded compensation for what it described as the "devastating" business impact of the government's proposals to ban most handguns. Page 11

Kurds threaten to call in Iraq: Kurdistan Democratic Party leader Massoud Barzani threatened to draw Iraq into inter-Kurdish fighting following accusations that Iran has helped the rival Patriotic Union of Kurdistan regain territory lost last month. Page 8

EU tourism chief asked to leave: The director general of the European Commission's tourist division has been asked to take early retirement following accusations of mismanagement in the department. Page 3

Japanese election may end instability: The Japanese general election on Sunday, the first trial of a new voting system mixing first-past-the-post single-seat districts and proportional representation, could produce a clear winner to end three years of instability. Page 6; Editorial Comment, Page 15

UN votes on security council seats: United Nations members will vote on Monday on filling five seats in the Security Council with only one of the two-year terms uncontested. Page 8

France plans telecom changes: France may to introduce a telephone numbering scheme enabling customers to easily choose between rival operators, encouraging competition in the long-distance and international call market. French connection, Page 15

Pearson, the media, information and entertainment group which owns the Financial Times, has appointed Marjorie Scardino, chief executive of The Economist Group, as group chief executive. Dennis Stevenson, currently a non-executive director of Pearson, will become deputy chairman. Page 17

S Korean defence minister sacked: South Korea's President Kim Young-sam sacked his defence minister Lee Yang-ho in response to criticism over the intrusion of a North Korean submarine last month. Page 6

Iberia, the state-owned Spanish airline which was bailed out with fresh subsidies early this year, is hoping for an alliance with British Airways and American Airlines. Page 20

Adams wins US support: National Committee on American Foreign Policy chairman Bill Flynn criticised the Irish Republican Army for ending its ceasefire but gave a strong endorsement to Gerry Adams, president of the IRA's political wing Sinn Féin. Page 11

Toyota, the world's second biggest carmaker, is considering building vehicles in eastern Europe – potentially the most significant investment by a Japanese manufacturer there since the collapse of communism. Page 5

Guatemalan stadium stampede kills 82: At least 82 people were crushed to death in a stampede at an overcrowded stadium in Guatemala City, after fans without tickets barged in to see a World Cup soccer qualifying game against Costa Rica.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,043.17	(+22.36)
NASDAQ Composite	1,247.81	(-3.18)
Europe and Far East		
CAC40	2,165.33	(+6.81)
DAX	2,716.26	(+1.36)
FTSE 100	4,042.1	(+17.7)
Nikkei	21,423.74	(+26.55)

■ US LUNCHTIME RATES

Federal Funds	5 1/16%
3-mth Treas Bills: Yld	5.093%
Long Bond	98 1/16
Yield	6.818%

■ OTHER RATES

UK: 3-mo Interbank	5 21/32%	(5 23/32%)
UK: 10 yr Gilt	98 1/32	(99 1/32)
France: 10 yr OAT	103.68	(103.41)
Germany: 10 yr Bund	101.45	(101.34)
Japan: 10 yr JGB	101.2502	(101.214)

■ NORTH SEA OIL (Argus)

Brent Dated	$ 24.525	(24.525)

■ GOLD

New York: Comex		
(Dec)	$ 382.6	(383.3)
London:		
close	$380.35	(381.65)

■ DOLLAR

New York: lunchtime		
£	1.58675	
DM	1.544	
FFr	5.219	
SFr	1.2695	
Y	112.225	
London:		
£	1.5865	(1.5848)
DM	1.5437	(1.5375)
FFr	5.2165	(5.2023)
SFr	1.2688	(1.2655)
Y	112.16	(112.155)
Tokyo Close:	Y 112.25	

■ STERLING

DM	2.4491	(2.4365)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lis 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	R 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zł 8.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (m'land)		Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500		Es265	UAE	Dh13.00

Russia's most popular politician now in open opposition to the Kremlin

Yeltsin sacks 'disruptive' Lebed

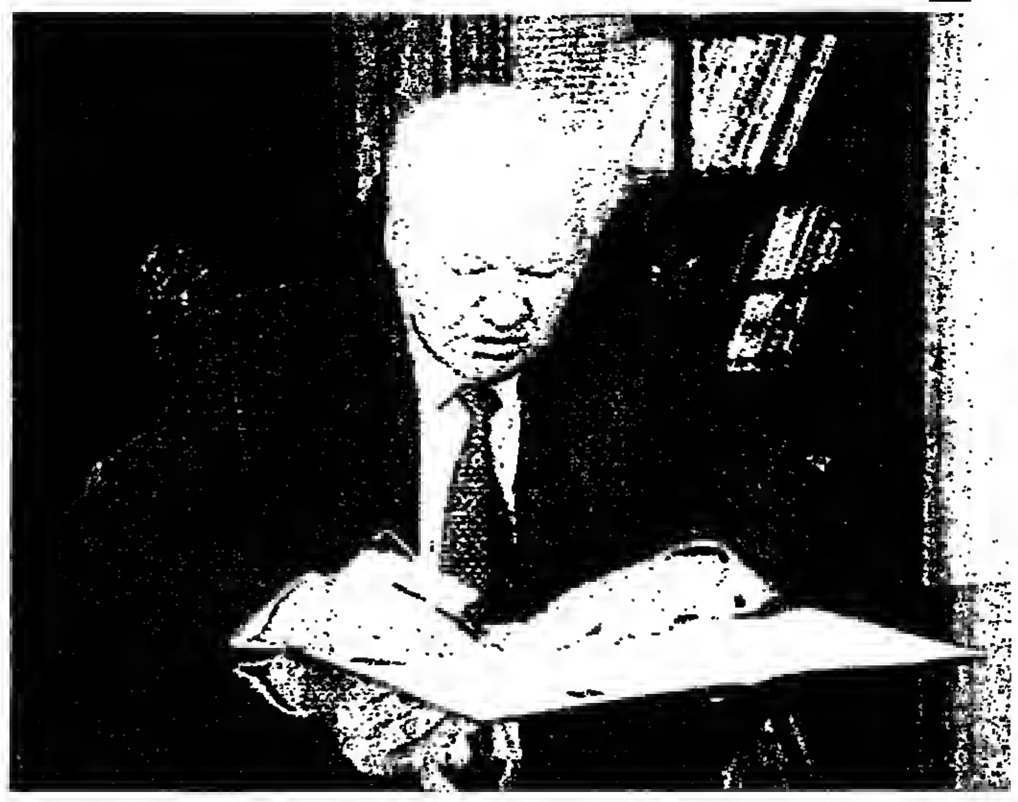
By Chrystia Freeland in Moscow

Russian President Boris Yeltsin yesterday sacked his security chief, Mr Alexander Lebed, pushing the country's most popular politician into open opposition to the Kremlin.

The decision threatened to add to the feverish political atmosphere in Moscow and could also jeopardise the fragile ceasefire in Chechnya negotiated by Mr Lebed in August.

Mr Yeltsin announced the dismissal in a two-minute television appearance, saying he could not tolerate an aide who squabbled with other members of the administration and bucked the official Kremlin line.

"A team should be close-knit, but it turns out that everyone is at cross-purposes. And it is Lebed who disrupts the team," Mr Yeltsin said. In an apparent effort to pre-empt speculation about the legitimacy of the decree firing the popular security chief, Mr Yeltsin signed the order on air, moving his hand shakily across the page.



President Boris Yeltsin makes a two-minute appearance on television to sign the decree sacking his security chief, Alexander Lebed, pictured above.

'A team should be close-knit, but it turns out that everyone is at cross-purposes. And it is Lebed who disrupts the team'
- Boris Yeltsin

'I call on my comrades in arms, my allies and people who I probably do not know in person . . . Do not do anything abrupt! We act only using constitutional means.'
- Alexander Lebed

The Kremlin hoped the decision to expel the administration's most outspoken dissenter would help calm weeks of embarrassing battles within the government and send a clear signal that Mr Yeltsin remains in charge of the country despite his heart condition.

Mr Lebed blamed his dismissal on Mr Anatoly Chubais, the president's influential chief of staff, and powerful business interests which had been profiting from the Chechen war. His fiery rejoinder suggested that by pushing out the man judged in a recent poll to be Russia's most trusted politician, the Kremlin risks forcing into the open the covert struggles which have come to dominate Russian politics.

Smiling broadly, the former general denied charges that he had been planning a coup and said the president was fully entitled to sack him.

But he also announced that he would now devote himself to building up a political machine to back an eventual bid for the presidency.

Mr Lebed said he had been removed because he was "inconvenient" for Mr Chubais, whom he accused of establishing "a regency" and seeking one day to become president himself. He also pointed the finger at one of Russia's most powerful businessmen, Mr Boris Berezovsky, whose empire includes the main national television channel, a chain of car-dealerships and an oil company.

Mr Lebed said Mr Berezovsky had personally threatened him after he had agreed a truce in Chechnya, saying the deal harmed his business interests. In a signal that over the next few weeks Russia's already vigorous national mud-slinging could intensify, Mr Lebed said the trigger for his dismissal was a dossier naming the culprits who had profited from the Chechen war.

He said he had submitted the documents to the president's office two days ago and promised to publicise them soon.

Mr Lebed also said that his dismissal was "inevitable", a judgment with which other politicians and observers were eager to agree.

Since his appointment in June, Mr Lebed has been at

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Lockheed swoops on UAE warplane deal

By Robin Allen in Dubai and Ross Tieman in London

Lockheed Martin of the US is set to clinch the lion's share of a supply and support contract worth $6bn to $8bn to equip the air force of the United Arab Emirates with 80 new strike aircraft.

A UK offer to lease Tornado bombers until the Eurofighter 2000 becomes available soon after the turn of the century has been rejected, along with bids from McDonnell Douglas of the US and Russian fighter manufacturers. But Dassault Aviation of France may win part or all of the contract if the Washington refuses to allow aircraft of sufficiently high specification to be exported, US defence experts say.

They said Abu Dhabi had made Lockheed's F16 Falcon its first choice, but one of them added: "Whether Lockheed wins the order for all 80 aircraft depends on whether the US is willing to supply [all] of the avionics, electronics weapons systems, stand-off missiles and support systems which Abu Dhabi wants."

He went on: "Politically, the choice of a US aircraft makes sense because it tightens links with the one country which alone can guarantee the external security of the United Arab Emirates."

France, which, like the US, has a defence accord with Abu Dhabi, has offered Mirage 2000-5 aircraft and is also keen to sell its new Rafale fighter-bomber, expected to be available by 2004 or 2005.

The Abu Dhabi air force already operates a fleet of 64 Mirage fighter-bombers. But the emirate is deeply alarmed at the arms build-up in Iran, just 100 kilometers away, and wants to acquire long-range aircraft capable of delivering retaliatory strikes deep inside Iran, if necessary.

In a hard-fought competition, Lockheed is understood to have offered specially modified long-range versions of its fighter bomber. An offer of long-range F15 aircraft from McDonnell Douglas was rejected.

If the US does not fully satisfy Abu Dhabi's demands for long-range versions of the F16 with the latest avionics, then the French option is still open as a "bargaining weapon".

One expert said: "Abu Dhabi would buy fewer F-16s and make up the difference with more Mirage 2000s, and by upgrading some 40 of those already in service."

Abu Dhabi is already a customer of British Aerospace, operating 18 Hawk 100 training aircraft. But BAe's prime contender for the contract, the Tornado, is to be replaced with the high-performance Eurofighter, which has yet to enter squadron service.

The aircraft themselves are likely to make up less than half of the value of the contract. The rest will include munitions, ground equipment and in-service support.

Telekom may limit private share sale

By Michael Lindemann in Bonn

Deutsche Telekom is likely to have to scale back the number of its shares available for individual investors in Germany because the issue, Europe's biggest initial public offering, is heading for massive oversubscription.

More than 3m people, far more than expected, are thought to have signed up to a scheme that provides individual investors with discounts and priority allocation of shares.

If all 3m apply for only the minimum 100 shares each, they would take 60 per cent of the issue – considerably more than the 40 per cent Deutsche Telekom had hoped to place with individual investors.

There have been suggestions that small investors might only receive 70 or 80 shares each. The company will publish the final prospectus for the issue on Monday, a day earlier than expected, giving a price range for the shares and the discount retail investors will receive – expected to be

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Investors approve Lagardère plan to take on Thomson

By David Buchan in Paris and Jack Burton in Seoul

Investors approved Lagardère's plan to take over Thomson, the troubled French electronics and defence group, yesterday as its shares soared 23.6 per cent. The shares closed at FFr164.60, ($32.46) up FFr31.50.

Some 6m Lagardère shares, amounting to 6.11 per cent of the group's capital, changed hands yesterday. The price of Lagardère warrants, convertible next January into shares at FFr130, rose even more sharply to close at FFr7.50 compared with FFr3.40 the day before.

Shares in Thomson-CSF were also traded heavily, but the price closed 1.8 per cent down on the day at FFr158.30. Lagardère has offered minority shareholders who hold 42 per cent of the defence company the chance to sell their Thomson-CSF shares for FFr156.

Other quoted Lagardère subsidiaries – the Europe 1 radio station and Filipacchi publishing – also put on substantial share gains.

French trade unions, backed by the opposition Socialist party, denounced Lagardère's intention to sell the Thomson Multimedia consumer electronics business to Daewoo of Korea.

Daewoo Electronics yesterday provided the first financial details of the deal. It said it was buying Thomson Multimedia for a symbolic FFr1 and assuming $960m of the company's $3bn debt. The French government would remain responsible for the rest.

Daewoo has persuaded the French government to assume almost 70 per cent of Thomson's debts by promising to double its French workforce to 10,000. The additional French jobs will be created by building a new TV parts factory.

Mr Bae Soon-hoon, the Daewoo Electronics chairman, claimed the financing arrangement would enable Thomson to report a net profit by 1998. Thomson Multimedia reported an operating profit of $70m last year, but it recorded a net loss of $218m because of debt-servicing costs.

Mr Bae, who will become president and chief executive of Thomson Multimedia, said Daewoo planned to cut Thom

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Eurofighter flies into stormier skies

Bonn's budget battle puts project in line of fire, writes Michael Lindemann

Funding for the four-nation Eurofighter programme has come under fresh scrutiny after this week's scrapping of Germany's plans to increase tax revenues next year to ensure that it meets the Maastricht criteria for the planned European single currency.

Mr Theo Waigel, the finance minister, has abandoned a proposal to delay for one year an increase in children's allowances and decided not to modify the wealth tax after failing to reach agreement with the opposition Social Democrats, who control the upper house of parliament.

This has forced him to rethink his fiscal arithmetic for 1997, making further budget cuts more likely. Eurofighter has been attacked as unnecessary by the SPD, and as too expensive by others, including the FDP, the junior partner in the government coalition.

"The chances of the project collapsing are as close as I have ever known them to be," says Mr Heinz Schulte, a leading defence analyst based in Bonn. "Just a few months ago there was a 70:30 chance that the Eurofighter would come. Now that has slipped to 52:48."

For months now Mr Volker Rühe, Germany's defence minister, has been telling Daimler-Benz Aerospace (Dasa), Germany's main contractor on the £40bn ($62.5bn) project, that he has no money for the aircraft which is supposed to be at the heart of Europe's air defence early next century.

Dasa originally said it needed DM700m ($465m) to start building the assembly lines for the Eurofighter. That has since been reduced to DM392m following cuts in the 1997 defence budget.

The line in Mr Rühe's draft budget which says "Eurofighter" has had no figure attached to it at all, which is causing growing anxiety not only to German industry but also to politicians and executives in Britain, Spain and Italy, the other partners in Europe's biggest ever joint defence project.

If pushed, officials at Bonn's defence ministry say they might be able to find DM100m next year. If that is all, says an executive at British Aerospace, the UK's main contractor, the project would be "massively delayed".

Contracts for the assembly lines have to be signed by January 1. If they are not, industry has the right to negotiate new, higher prices – putting even more pressure on Mr Rühe.

Some officials even suggest that Germany might pull out of the programme altogether given the overriding need to meet the Maastricht criteria.

That would mean writing off the DM6bn Germany has spent so far on development costs. Contracts already signed mean Germany would also have to transfer, at its cost, all the development technology to its three partners. Moreover about 18,000 German jobs depend on the Eurofighter.

To keep up the political pressure on Chancellor Helmut Kohl, Mr Rühe has so far refused to allot money to Helios and Horos, reconnaissance satellites which Mr Kohl has promised to build with France.

"He's holding two hostages," says one executive. "In order to signal to the chancellor that he does not want his budget mauled again next year."

Dasa and the defence ministry are still battling it ont over the costs of production, and are likely to do so until November 14, when the parliamentary budget committee will produce a final version of the 1997 budget.

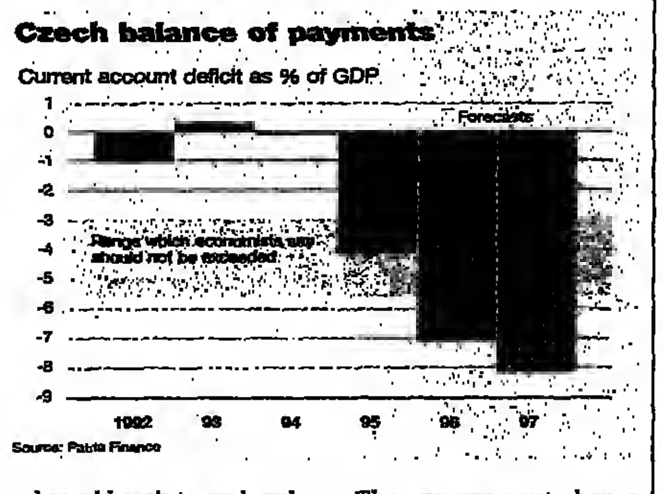
Heavyweight currency squeezes Czech trade

By Vincent Boland in Prague

The Czech government is casting around for ways of cutting back its soaring trade deficit without breaching its firm commitment not to devalue the koruna.

The cabinet met this week to discuss a range of measures, including boosting export promotion and research and development and curbing public sector wage growth, to tackle a deficit which totalled Kč100.9bn ($3.7bn) in the eight months to August, and is forecast to reach 7 per cent of gross domestic product this year.

Czech balance of payments



Source: Patria Finance

Senior policymakers have agreed on the need to increase domestic competitiveness and exports, which are flagging mainly because of the strength of the koruna and a slowdown in economic activity in the country's main export markets.

Economic ministers and the head of the central bank this week firmly ruled out a devaluation of the currency or import surcharges to cut the deficit.

Mr Václav Klaus, the prime minister, said the strength of the koruna was not the root cause of the problem and promised no change to the long-running policy of fixed exchange rates, which has become an article of faith for the government.

However he said the government wanted to prevent wage growth from exceeding labour productivity growth and would seek to curb public sector wage rises.

Mr Kamil Janáček, chief economist at Komerční Banka, estimated that nominal public sector wages are up nearly 20 per cent this year and would exceed private sector wage rises for the first time in four years.

Analysts backed the stance on the koruna, but the currency continued to rise against the US dollar and the D-Mark this week, further exacerbating the problems of exporters.

The budget for 1997 allocates increased funding for export promotion and there are moves to involve the foreign ministry and diplomatic missions more closely in promoting Czech goods abroad. Funding for research and Development, which averaged about 1 per cent of gross domestic product is also set to rise.

The government hopes these measures will help slow the deficit, which some economists see rising to 8 per cent of GDP in 1997 net of invisibles, compared with just over 4 per cent last year.

The country is importing capital goods for investment while exports are growing more slowly than imports because of strong demand at home. But the benefits of the imports of technology have still to result in higher exports of better-quality goods.

This is blamed on companies' inability to use them effectively.

"Everybody hoped the benefits would take place this year. The question is how far these imports are being used efficiently," said Mr Martin Kupka, an economist at the investment bank Patria Finance.

Concern on safety of Cyprus flag ships

Concern about the safety and quality of the Cyprus shipping register was voiced yesterday by Mr Neil Kinnock, the European Union's transport commissioner, AP reports from Nicosia.

Speaking after meeting Mr Adamos Adamides, the island's transport minister, he said the safety of Cypriot flag vessels and the ease of placing ships on the register were among the issues discussed.

"Obviously this is a matter of particular concern for us given the size of the Cyprus fleet, the fourth largest in the world, and growing, and also the large number of vessels owned by Community [EU] companies that are flying the Cyprus flag," Mr Kinnock said.

"Cyprus is committed to making improvements in this sector to meet the challenges and requirements of admission to the Union," he said. The island starts accession talks either late next year or in 1998.

Mr Adamides said Cyprus "is not yet in a position to check fully the level of safety of its big merchant fleet which exceeds 2,700 vessels", but it had "clear plans" to start remedying the situation.

These envisaged employing independent inspectors to be based in 50 ports throughout the world to deal with ships that failed to observe safety standards.

West European new car registrations

January-September 1996

	Volume (Units)	Volume Change(%)	Share (%) Jan-Sep 95	Share (%) Jan-Sep 96
TOTAL MARKET	10,052,200	+6.7	100.0	100.0
MANUFACTURERS:				
Volkswagen group	1,723,509	+10.4	17.1	16.6
– Volkswagen	1,130,671	+13.4	11.2	10.6
– Audi	307,261	+5.3	3.1	3.1
– Seat	225,147	+1.2	2.2	2.4
– Skoda	60,430	+20.8	0.6	0.5
General Motors	1,266,262	+2.9	12.6	13.1
– Opel/Vauxhall	1,215,337	+3.4	12.1	12.5
– Saab	43,021	-4.9	0.4	0.5
PSA Peugeot Citroen	1,208,339	+7.1	12.0	12.0
– Peugeot	713,121	+5.9	7.1	7.2
– Citroen	495,278	+9.0	4.9	4.8
Ford group	1,188,482	+3.8	12.1	12.0
– Ford	1,177,374	+3.9	11.7	12.0
– Jaguar	11,108	-9.3	0.1	0.1
Fiat group*	1,126,408	+7.3	11.2	11.1
– Fiat	901,274	+10.3	9.0	8.7
– Lancia	127,502	-2.6	1.3	1.4
– Alfa Romeo	96,261	-3.9	1.0	1.1
Renault	1,007,639	+3.2	10.0	10.4
BMW group	622,186	+7.4	6.2	6.1
– BMW	326,984	+7.9	3.3	3.2
– Rover	295,202	+6.9	2.9	2.9
Mercedes-Benz	359,796	+16.0	3.6	3.3
Volvo	149,167	-12.3	1.5	1.8
Nissan	283,900	-2.3	2.8	3.1
Toyota	258,860	+7.3	2.6	2.6
Honda	154,148	+7.4	1.5	1.5
Mazda	138,734	+5.2	1.4	1.4
Mitsubishi	119,626	+21.0	1.2	1.1
Total Japanese	1,084,019	+6.4	10.8	10.8
Total Korean	189,746	+42.2	1.9	1.4
MARKETS:				
Germany	2,717,700	+6.5	27.0	27.1
United Kingdom	1,657,200	+4.0	16.5	16.9
France	1,650,500	+13.8	16.4	15.4
Italy	1,348,400	-1.0	13.4	14.5
Spain	676,100	+6.1	6.7	6.8

*VW holds 70 per cent and management control of Skoda.
#Includes cars imported from US and sold in western Europe.
**GM holds 50 per cent and management control of Saab Automobile.
Fiat group includes Lancia, Alfa Romeo, Innocenti, Ferrari and Maserati.
Source: ACEA (European Automobile Manufacturers Association) estimates. Figures are rounded.

Volkswagen increases its lead

Volkswagen group tightened its grip on the leadership of western Europe's new car market last month, writes John Griffiths in London. This was despite French carmakers enjoying a big domestic sales boost as buyers rushed to beat the September 30 deadline for the end of government incentives to buy new cars. VW, which includes Audi, Seat and Skoda, increased its market share for the month to 17.7 per cent, from 17.5 a year earlier. Peugeot/Citroen saw a 29.1 per cent rise for the month, to 13.2 per cent (11.5 last September), but still trails General Motors for the year as a whole.

Lithuania's old heroes look for new glory

First east Europeans to ditch their liberators for ex-communists may vote dissidents back into office, writes Matthew Kaminski

The hero is back. But has his time passed? Lithuanians will give their verdict this Sunday when Mr Vytautas Landsbergis, the bearded composer and leading dissident who stood up to Soviet tanks and helped win the Baltic country's freedom in 1991, leads a rejuvenated Homeland Union into parliamentary elections.

The latest polls show his conservatives, who were routed by the former communists in 1992 after just a year in power, are ahead with about 15 per cent support. Two other centre-right parties, the Christian Democrats and the Centre Union, each have about 10 per cent. The governing Lithuanian Democratic Labour Party (LDLP), founded on the remnants of the Communist party, is at 12 per cent. A party needs 5 per cent to get into parliament.

The most likaly outcome – if the polls are to be believed – is a conservative coalition government. Mr Gediminas Vagnorius, prime minister in the first post-independence cabinet, might then regain his old job. Mr Landsbergis's eye is on the parliamentary speaker's post. His ambition is the presidency, which will be contested in 1998.

For the former dissidents, this would be poetic justice. It was in Lithuania that eastern Europe's former communists first came back to power. Poland and Hungary followed. Mr Landsbergis would like to set a new trend by ousting his country's former communists.

Indeed, the LDLP's waning popularity reflects the pitfalls of incumbency in post-communist eastern Europe. The party oversaw a painful transition. Its market reforms, while less than radical, made the streets of Vilnius bustle with commerce. Yet the rural regions are pockmarked with bankrupt factories and impoverished farms.

Tha ex-communists sound defeatist. "It's hard to be popular when you take tough economic decisions," says Mr Mindaugas Stankevicius, the prime minister.

The avuncular Mr Stankevicius has a point. Under the LDLP, inflation came down and growth was revived. Lithuania won International Monetary Fund support. Yields on government debt are now around 10 per cent, after flirting with 40 per cent earlier this year.

But the LDLP record is mixed. Subsidies for farms and energy are a drain on the budget. Privatised by free vouchers, the country's factories are largely unreformed and often run by their old managements.

"A change would be a good thing," says a western diplomat. "There are still a lot of people in the corridors of power who date back to the old days. They've got to go – and allow bright young people who you saw running [neighbouring] Estonia to take over."

Public faith in government is low. A lively popular press, which some regard as the hallmark of a healthy civil society in the ex-USSR, unearths scandals almost daily. Tales of official corruption and crime resonate in a country with unemployment at 8 per cent and monthly wages below $200.

The fallout from a banking crisis this year continues to take a toll on the LDLP. The budget deficit rose and growth stagnated. The alleged personal involvement of government members ate heavily into the LDLP's support.

Calls to clean house are popular not only among the depositors who saw their savings frozen. Mr Romualdas Ozolas, the Centre Union head, campaigns with a briefcase in which, he alleges, are the names of compromised politicians. Like Joe McCarthy, he never opens it. The gimmick works.

A centre-right coalition would be likely to toe the same westward-oriented foreign policy line as the LDLP. Hopes of membership of the European Union and Nato are a top priority.

Relations with the east might change, though: Mr Landsbergis favours a more hawkish line toward Moscow. Of the three Baltic countries, Lithuania currently enjoys the most placid relations with Russia.

More uncertainty surrounds future economic policy. Mr Landsbergis's one year in power evokes painful memories of disorganisation and economic populism. This year's campaign hardly indicates that the right learned much from four years in opposition.

The Homeland Union opposes free energy prices and a privatised telecommunications sector. It also says the litas, now pegged at 4 to the dollar, might be devalued. This controversial move would alienate investors. Lithuania ranks last in the Baltics in terms of foreign direct investment. But any government would come in handcuffed. The current IMF $200m loan programme runs until next September: any change in monetary policy needs its approval.

No party appears likely to win a majority. Coalition rule usually breeds compromise. The president, Mr Algirdas Brazauskas, would provide another check. The popular former Communist party head can remove cabinet ministers.

Mr Landsbergis cut his teeth fighting communists. He carries more pounds than in January 1991, when Mr Gorbachev sent the Soviet army on the Vilnius parliament and television tower. But the composer's high pitched chuckle is the same. And he clearly feels at home in this campaign.

"The mood is bad: I sense it all the time," says Mr Landsbergis. "Even if we win, the *nomenklatura* [ex-communist establishment] has strengthened its position in the economy, media and judiciary."

So it may again be the time of the now greying hero. But many Lithuanian voters wish the country's political system would outgrow the old divisions. "There's no centre in Lithuanian politics," says one LDLP official, "and we might have to wait a whole generation for one."

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maraviglia, 42 Rue La Boetie, 75008 PARIS. Telephone (01) 5376 8254, Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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Frankfurt 'still likely to trail London'

By Andrew Fisher in Frankfurt

Frankfurt will be at a disadvantage as a financial centre against London and Paris after European monetary union unless greater efforts are made to improve trading efficiency and liquidity in the German capital market, Mr Ulrich Cartellieri, a director of Deutsche Bank, Germany's biggest bank, said yesterday.

The euro, the planned single currency, would "create the basis for tough competition" among European markets, he told a conference in Luxembourg. He cited London's pre-eminence as a financial centre in Europe and pointed to the progress made in making Paris a more competitive market.

Mr Cartellieri said London would play an important role from the start in the new euro-based financial market, regardless of whether the UK took part in Emu. "The idea that the financial sector of continental Europe could obtain a competitive advantage against London in a currency union without Great Britain is an illusion."

His comments followed a survey of European finance directors which concluded that Frankfurt would displace London as Europe's leading financial centre if Britain remained outside Emu. A majority of directors polled by Healey and Baker, the UK property consultancy, said Frankfurt would become the main European financial centre if the UK was not in Emu.

Mr Cartellieri said London had shown how well it could adapt and innovate. It would have even more advantages if Emu's monetary policy and capital market instruments and regulations were based too closely on current national practices. He thus argued against minimum reserve requirements in Emu, calling these a "competition-distorting special tax" on customers' deposits at banks.

"We reject them [minimum reserves] decisively as an instrument of the European central bank," he asserted.

The Bundesbank, which levies minimum reserves on deposits with the German banking system, has argued strongly that these should be adopted under Emu. Mr Otmar Issing, a Bundesbank director, said that they had a stabilising influence on the money market.

Among the changes Mr Cartellieri called for in the German capital market were the creation of more liquidity by banks in financial products and derivatives, increased government efforts to provide a full range of bonds at all maturities and an eventual move to Anglo-Saxon type pension funds to stimulate investment in equities.

Both he and Mr Issing opposed giving non-Emu members access to Target, the planned euro payments system, in a way which would enable them to use intraday or overnight refinancing credits.

EUROPEAN NEWS DIGEST

Aid plan for Czech banks

The Czech central bank yesterday unveiled measures to help the country's crisis-hit small banks, pledging up to Kč13.7bn ($510m) to strengthen their capital and liquidity. The measures include the purchase of non-performing assets from 13 named banks, which will be financed by the Consolidation Bank, a state institution. Extra funds will be available if required from the National Property Fund, the state privatisation agency.

Mr Josef Tošovský, central bank governor, said the aid package was voluntary and "a step towards restoring the banking sector's credibility". Banking has been badly hit by the collapse of Kreditni Banka in August with losses of up to Kč12bn and a related liquidity crisis weeks later at Agrobanka, the country's largest privately owned bank.

Mr Tošovský named tha banks at which the measure was aimed as Union Banka, Ekoagrobanka, Banka Skala, Evrobanka, Foresbank, Coop Banka, Prvni Mestska Banka, Zemska Banka, Banka Hana, Pragobanka, Plzenska Banka, Universal Banka and Moravia Banka. All are relatively new. *Vincent Boland, Prague*

Italian deficit to overshoot

Italy's budget deficit this year will overshoot the recently adjusted estimate of L123,000bn ($81bn), Mr Filippo Cavazzuti, treasury undersecretary, told parliament yesterday. Less than three weeks ago the government unveiled its 1997 budget against the background of a revision of this year's deficit from L113,000bn to L123,000bn, equivalent to more than 6 per cent of gross domestic product. But, speaking to the finance commission of the chamber of deputies, Mr Cavazzuti said: "The risk of breaching the L123,000bn target end going beyond is unfortunately a reality."

Both the Bank of Italy and the research department of Confindustria, the industrialists' confederation, have indicated in the past week that Italy's deficit was likely to be closer to L130,000bn.

The overshoot has been caused in part by the returns from June's fiscal package being lower than expected. But the main problem remains stagnation in the domestic economy. The government had hoped a recovery would begin in the final quarter, but this is now looking less probable. *Robert Graham, Rome*

Where business blooms best

Switzerland, Ireland, the Netherlands, Sweden and Israel received the highest ratings for their business climate in a poll of senior executives published by the European Council of American Chambers of Commerce yesterday. With positions nine, 11 and 15 respectively, Germany, Britain and France were also behind Luxembourg, Norway and Austria in the survey.

Former communist countries Bulgaria, Poland, Slovakia and Romania scored the worst. However, executives based in Bulgaria and Romania were among those who expressed the most hope about improving business conditions over the next five years. In contrast, business chiefs in developed countries such as Britain, Belgium, Switzerland, Italy and Germany believed the business climate would get worse, the survey said.

The report was based on interviews with 737 executives at US and European companies in 23 countries. The survey measured the views of ECACC members on political policy, economic environment, infrastructure, workers' issues and quality of life affecting a company's ability to do business in its host country. *Reuter, Brussels*

Spain cuts electricity tariffs

The Spanish electricity companies have agreed to accept a 3 per cent cut in tariffs next year, the newspaper El Pais reported, quoting Mr Nemesio Fernandez, secretary of state for energy. He said the government would have to negotiate how the cuts were to be implemented.

Last month, Mr Josep Pique, industry minister, said electricity prices would fall by an average 3 per cent in nominal terms in 1997, which would translate into a 1 per cent cut in real terms in electricity prices for residential users. The proposed cuts would lead to a reduction of 0.2 percentage points in the 1997 inflation rate.

The key question now is how the government will decide to compensate companies for the reduction in prices. Various options have been discussed, among them the removal of the so-called external costs related to the moratorium on nuclear power and the subsidies to the coal and mining sectors. A decision is expected later this month. *AFX, Madrid*

Black economy in spotlight

The European Commission has appointed an international accountancy firm to estimate the size of the black economy in five member states and assess its impact on public finances. The pilot study, to be undertaken by Deloitte Touche Tohmatsu International, will also look at possible solutions to reduce the size of the unofficial economy. It will focus on Belgium, France, Germany, Italy and Britain.

The study will be led by Mr Martyn Bridges, a partner in Deloitte & Touche, DTTI's UK practice, with the help of Mr Dilip Bhattacharayya, an economist at the University of Leicester. Mr Bridges said estimates of the size of the black economies ranged as high as 25 per cent of gross domestic product. The firm is already carrying out a year-long study on the impact of international fraud on the European Union. *Clay Harris, London*

Greece probes casino licence

Greece's Socialist government has ordered a parliamentary inquiry into charges that a casino licence was illegally awarded to a Greek-led international consortium in 1994 by Mr Dionysos Livanos, then tourism minister. A government spokesman said the inquiry would improve transparency in political life. It came after a prosecutor'a report said Mr Livanos had awarded the licence on political criteria.

The Athens Casino Consortium, which included South African and US investors, paid $44m for a licence to build a private casino in a seaside suburb of Athens and agreed to spend more than $100m on building a luxury hotel and yacht marina. The licence was revoked last April following objections from local residents and complaints by other bidders.

One consortium member, Marrecon Enterprises of the US, has sued Ms Vasso Papandreou, the development minister, and Greece's state tourism organisation for $1.6bn in damages. *Kerin Hope, Athens*

EU voices Albania poll fears

The European Union yesterday expressed concern at Albania's failure to admit a sufficient number of observers from the Organisation for Security and Co-operation in Europe to monitor the country's local elections on Sunday.

The Office for Democratic Institutions and Human Rights, the OSCE's main observer body, decided on Tuesday to pull its representatives out of Albania. And yesterday the OSCE's parliamentary assembly cancelled its plan to send a 19-strong delegation to Tirana because of the government's refusal to accept the full ODIHR list of 37 observers.

The Albanian opposition Socialist party yesterday also attacked the government action, which it described as an "expression of primitive revenge against the unbiased and objective stand of this organisation, which compiled a detailed report on the massive violations during the May 26 elections". *Kevin Done, East Europe Correspondent*

NEWS: EUROPE

Protest gathers momentum as a third of civil servants respond to unions' call

Paris plays down strength of strike

By David Buchan in Paris

A third of France's 1.68m civil servants yesterday responded to their unions' strike call and stayed away from work to protest against government plans to restrain their pay and cut their jobs.

The government generally played down the significance of the strike, comparing the 32 per cent turnout to 57 per cent in a similar protest strike a year ago.

Nevertheless, at the end of the one-day protest that also affected rail and air transport and drew support from private doctors as well as public hospitals, Mr Louis Viannet, secretary general of the pro-communist CGT union, said: "We have the momentum going, which will continue and grow stronger every day".

Anti-government demonstrations were held in most major French cities as well as in Paris, where union leaders led a march across the city centre. The CGT said 100,000 people took part – police put the figure at about 23,000.

Marchers in the capital shouted slogans such as "salaires bloqué, emplois supprimés, Chirac, Juppé, ça ne peut pas durer!" (Wages blocked, jobs cut, Chirac, Juppé, this can't go on!).

Mr Lionel Jospin, leader of the opposition Socialist party, expressed support for the strike – he was accused of "complete demagogery" by the secretary general of the ruling Gaullist party.

Mr Dominique Perben, the civil service minister, sought to ease the situation by repeating his promise of early pay negotiations. The government has promised that this year's civil service pay freeze will not be extended into next year.

But it has said it has little scope – less than FFr2bn ($385m) – to increase wages in 1997, the year in which it hopes to bring the public deficit down to 3 per cent of GDP and thus to qualify France for European monetary union.

The government also appears to be sticking to its plan to reduce the central civil service by 5,600 next year. This would be done by natural wastage rather than redundancy, but the unions have reacted furiously.

The SNCF rail company reported that 40-45 per cent of railway workers, who struck last year for nearly three weeks, answered yesterday's strike call, halting two out of every three trains on mainline and Paris suburban services.

More than a third of the staff of France Télécom, Electricité de France and Gaz de France stayed away from work. But services were not interrupted due to automation.

Stoppages by air traffic controllers and some pilots reduced Air France services to one in three flights and Air Inter Europe to one in five, the two airlines said.

Police, whose estimates are traditionally conservative, said 20,000-25,000 people marched in Bordeaux, the southwestern city of which Mr Juppé is mayor.

Masked Parisian protesters make a case: 'Stop the lies, down with unemployment, stop instability...the right to work' Reuter

Gaullists find new unity over tax cuts

The issue of tax cuts is beginning to strain France's coalition government, pulling the centre-right UDF federation away from Mr Alain Juppé, the prime minister, and his Gaullist RPR party.

But this new strain with its junior coalition partner is also causing the RPR to unite closer behind Mr Juppé and President Jacques Chirac, healing their long rift with Mr Edouard Balladur, the Gaullist former prime minister, who joined an RPR meeting at the Elysée yesterday.

In an interview, Mr Balladur stressed that in seeking a modest acceleration of tax cuts, he was not in any way trying to rock the overall balance of Mr Juppé's fiscal strategy.

The National Assembly has approved the government plan to cut income tax by FFr25bn ($5bn) next year, and yesterday voted to cut the first instalment of income tax next spring by 6 per cent, instead of the 5 per cent reduction sought.

But the government is being pressed by UDF backbenchers to go further and cut value added tax and to reverse its planned rise in fuel tax.

The UDF tax-cutting campaign – evidently designed to give it a more popular policy on which to distinguish itself from the Gaullists in the 1998 elections – has prompted a tart response from Gaullists who have challenged their coalition partner to find extra savings in the 1997 budget to justify these extra tax reductions.

The outcome depends, in part, on the stance of Mr Balladur, whose support crosses the RPR/UDF divide: though a Gaullist, he was overwhelmingly backed by the UDF in the early stages of his 1995 presidential campaign against Mr Chirac.

Mr Balladur recently dismissed as "political fiction" the possibility that Mr Chirac might one day ask him to replace Mr Juppé as prime minister. But the passage of time and the advancing prospect of the 1998 election is helping heal past rifts within the Gaullist hierarchy.

In his interview, Mr Balladur said he was seeking certain tax changes, but said that none of these would "greatly change the general equilibrium of the budget" which aims to bring the overall public deficit down to 3 per cent of gross domestic product next year.

Mr Balladur limits his prescription to inject more "optimism" and "activity" into the French economy to:

- Acceleration of income tax cuts. This would involve making the same FFr25bn cut in 1997 as Mr Juppé plans, but compressing the timetable for cutting another FFr50bn off income tax in subsequent years.
- Cutting the tax on property transactions which stands at 7 per cent in France, compared with 1 per cent in the UK and 2 per cent in Germany.
- New incentives to encourage the French to dip into their high savings and to spend.
- A possible cut in the rate at which the state health insurance agency reimburses medical expenses, if government efforts to manage hospitals more efficiently and to encourage cheaper, generic medicines fail to produce early results.

Though interest rates have come down sharply in France, Mr Balladur claimed there is still some margin for further cuts without endangering the franc's link with the D-Mark.

The former prime minister reflects a growing anxiety in France not about the parity at which the franc will be fixed permanently against the D-Mark in Europe's planned monetary union, but about the euro's rate against the US dollar.

By focusing more on such policy problems of the future, Mr Balladur seems to be playing his part in calming the controversies of the present.

David Buchan

EU tourism official asked to retire early

By Caroline Southey in Brussels

A senior civil servant in the European Commission's tourist division has been asked to take early retirement following accusations of mismanagement in the department.

The decision to ask Mr Heinrich von Moltke, director general of the tourism division, to take early retirement was taken on Wednesday during a closed meeting of the commissioners.

However, the commissioners refused to grant a request lodged in June by the Belgian authorities to lift Mr von Moltke's diplomatic immunity.. "The grounds given for seeking to lift his immunity are certainly not convincing enough," a Commission official said.

The Commission official stressed that the move to replace Mr von Moltke was not linked to the arrest by Belgian authorities of two officials in the department on fraud charges earlier this year and not a reflection on Mr von Moltke's character.

"The Commission stresses the confidence it has in the integrity of Mr von Moltke," he said. Another EU official added that while Mr von Moltke was head of the division at the time of the alleged fraud, there were no suggestions that he had been involved.

The move came after pressure had been mounting on the Commission to take action. A special Court of Auditors report, which has not yet been made public, has identified irregularities in the department between 1990 and 1994, according to EU officials.

The European parliament last week proposed that 10 per cent of commissioners' salaries should be held in reserve until a re-organisation of the tourism department to reduce the risk of fraud had been put in place.

Mr Christos Papoutsis, commissioner for tourism and small and medium-sized enterprises (SMEs), served notice last week that he intended to overhaul the department following consultations with Mr Jacques Santer, president of the Commission and Mr Erkki Liikanen, the commissioner in charge of the budget. He pointed out that the irregularities had taken place before the present Commission under Mr Santer had taken office.

Papontsis: overhaul planned

Nevertheless, he said, it was necessary fully to re-organise the division so that fresh impetus could be given to policies favouring SMEs.

EU officials denied that the Commission had been pressed into taking the decision against Mr van Moltke. "We had already been planning to make changes at the department," the official said. Mr von Moltke was close to retirement.

The Court of Auditors reported in 1992 that it had information showing irregularities in the tourism division. The charges were related to the European year of Tourism in 1990 when contracts were allegedly rewarded for kickbacks.

Dole litany fails to dent Clinton

Jurek Martin compares performances in the second US presidential debate

If the second US presidential debate had been a car driving test, here is how an examiner might have rated the Democratic and Republican contenders.

President Bill Clinton used automatic transmission and set the button on cruise control. Mr Bob Dole kept changing gears frantically and crashed them noisily more than once.

To partisans, both passed the test. Mr Clinton, in his element fielding questions directly from ordinary citizens, empathised with his audience, to the point that some questioners were caught nodding in agreement simply because he looked them in the eyes.

Mr Dole, Republicans said afterwards, had been tougher and more aggressive towards the president than his deferential performance in their first debate. But, to do so, he frequently had to ignore the questions put to him.

A total of 19 questions were posed. Three were about healthcare, three about taxes and savings, two about foreign trade and two more about discrimination (against minorities and gays). The other nine ranged from the Middle East and tobacco to welfare and military pay.

Only three, two towards the end of the 90-minute session, offered Mr Dole obvious opportunities to impugn Mr Clinton on the ethical charges that this week had become his campaign leitmotif.

That left Mr Dole feeling obliged to trot out his litany in odd places. When asked about military pay, he suddenly, in an abrupt switch of tone to the past, said "remember Vietnam" – an allusion to Mr Clinton's avoidance of the draft more than 25 years ago.

Similarly he raised the current hot issue of Democratic campaign contributions from an Indonesian business empire only once and without context or explanation, as if none were needed.

When the question was about tobacco addiction, Mr Dole wanted to talk about marijuana and cocaine, citing an old Los Angeles Times article, which the newspaper subsequently retracted, in his determination to tar the president with complaisance over a different kind of addiction.

Repeatedly, Mr Dole injected the phrases "my word is my bond" and "I keep my promises" in deliberate, if sometimes disconnected, contrast with his case that the president has failed on both counts.

But he muddied what was supposed to be a clear message by introducing extraneous elements. In his concluding remarks, he raised out of the blue old conservative chestnuts such as term limits for congress and constitutional amendments to ban flag burning and restore voluntary prayer in schools, all forgotten issues in this year's campaign.

Mr Clinton rose to no baits, though occasionally he showed steel. "I don't want to respond in kind to all these things," he said. "No attack ever created a job, or educated a child or helped make ends meet. No insult ever cleaned up a toxic waste dump or helped an elderly person."

He often appeared almost indulgent of his older opponent as he stuck to his message. The fact that Mr Dole was 73 did not make him unqualified to be president, Mr Clinton said: "It's the age of his ideas which I question."

His policy arguments were relentlessly directed at the future. When Mr Dole complained that the failed 1994 healthcare reform was a liberal attempt to impose "socialised medicine" on "the best health delivery system in the world," Mr Clinton responded with a raft of incremental details of necessary improvements to be tackled in a second term.

Both appealed to California voters, with Mr Dole insistent that the state had lost thousands of manufacturing jobs. The president responded that if the state economy was really worse off now than in 1992, "you should vote for Bob Dole".

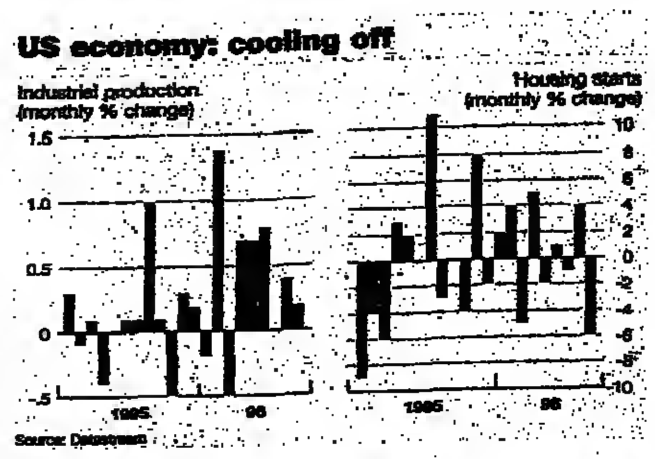
Afterwards, three network polls found Mr Clinton the "winner" by about a two-to-one margin, but with virtually no minds having been changed by the debate. The campus theatre audience informally polled itself by a show of hands and gave the nod to the president by three-to-one.

Some conservative critics of Mr Dole declared the race to be now over. Mr William Kristol thought Mr Dole had admitted as much in a couple of self-deprecating debate asides. Mr George Will pronounced that the Republican party should publicly "resign itself" to his defeat and concentrate on retaining control of Congress.

At one stage Mr Dole appeared to be challenging Mr Clinton to another debate – on the economy. On the basis of the first two, he will need a Formula One driver's licence.

US growth slows in line with Fed views

By Michael Prowse in Washington



US economic growth appears to have slowed in recent months, in line with projections by the Federal Reserve, figures indicated yesterday.

The Fed said industrial production grew 0.2 per cent in real terms last month compared with 0.4 per cent in August. The slow down reflected a drop in output of cars and light trucks.

Separately the Commerce Department reported a 6 per cent fall in housing starts last month to a seasonally adjusted annual rate of 1.44m, the lowest this year.

The signs of weaker growth will be welcomed by senior monetary officials who last month surprised the global financial community by failing to raise short-term interest rates. Many economists said the Fed should have raised rates modestly to head off pressure on inflation next year.

Some analysts yesterday remain unconvinced that a slowdown was occurring. "I don't see a slowdown," said Mr Robert Brusca, chief economist at Nikko Securities in New York. "The consumer is too confident. Personal incomes are still growing strongly."

Slower economic growth in the third quarter was not conclusive, he said, because growth data was volatile on a quarterly basis and the second quarter had been exceptionally strong.

The Fed said real growth of industrial output slowed from an annualised rate of 6.7 per cent in the second quarter to 4.4 per cent in the last three months – a still robust rate of expansion.

The rate of industrial capacity utilisation – often seen as a measure of upward pressure on industrial prices – fell slightly to 83.3 per cent last month, against 83.4 per cent in July and August.

Analysts said the fall in housing starts was sharper than expected and could indicate a decline in housing demand following increases in mortgage rates this year. Rates on 30-year fixed rate mortgages averaged 8.2 per cent last month against 7 per cent in January. However, the data on starts are frequently revised substantially. The drop last month followed exceptionally strong figures during the summer.

Baseball takes lead over politics

By Patti Waldmeir in Annandale, Virginia

There were nachos, chicken wings and alcohol-free beer to help ease the pain of withdrawal, but the junkies were suffering. Addicted to both politics and sport, they had faced a difficult choice: Bob Dole or baseball.

A handful of Republicans from northern Virginia had gathered on Wednesday night at Main Street, USA – the improbably named local restaurant – to watch Mr Dole fight for his political life in the last debate of the presidential campaign season. But until the last moment, Main Street USA's big screen television remained firmly tuned to that other epic battle: the fight between the Atlanta Braves and the St Louis Cardinals for a spot in baseball's World Series.

At precisely 9pm, the choice had to be made, and some brave soul seized the remote control to change the channel from sport to politics. But in the bar, only steps away, another TV stayed tuned to baseball. Republican runners were organised to collect periodic scores and updates, and bring them back to the political front.

Republican runners were organised to collect periodic scores and updates

Having identified his true enemy in the debate, Mr Dole went straight to the attack: his first words were about baseball. "Let me first give you a sports update. The Braves, one. Cardinals, nothing," he deadpanned. Hunched over nachos and guacamole, the party operatives were horrified. "Oh great! Why did you remind them? Why don't you just remind them all to change channels?" asked Mr Jim Parmelee, chairman of Virginia Young Republicans.

When, later in the debate, Mr Dole made a throw-away reference to the arcane subject of the presidential "line item veto" as being "inside baseball" – meaning something too complicated for laymen – my neighbours moaned again. "Don't mention baseball!" Mr Mike Everard, Dole volunteer, pleaded with the oblivious candidate, while from the precincts of the bar another tantalising cheer could be heard. One of the debate-watchers rose discreetly, ostensibly to visit the lavatory. He came back, bearing the news that really mattered: Braves 2, Cardinals 0.

Soon, the din from the bar was drowning out the candidates, and a Republican party technician investigated the volume controls. While we waited, it was time for sartorial critique: "I don't like his tie," Mr Everard opined, while Mr Parmelee chimed in: "It makes him look like a funeral director." They had a point: Mr Dole's tasteful grey-patterned silk was, like the candidate himself, too muted for television.

But this was, on the whole, a receptive audience. They laughed at Mr Dole's jokes – like his proposal for affirmative action for handicapped presidential candidates, which raised a big guffaw from the crowd – and one which loudly applauded attacks on the president's character.

Mr Parmelee was sure that one such attack had rattled the president: "He's starting to blink more now. He's getting to him," he enthused. But the Young Republicans' chairman felt Mr Dole dropped the ball when he failed to reply to an obviously gay questioner by denouncing homosexuality. "Sodomy is still illegal in Virginia," he informed me, though noting: "It's not enforced much."

Afterwards, there was broad consensus: Mr Dole had fought well, but not well enough to win – and probably not dirty enough, either. But as we discussed the debate, we were interrupted by the local Republican party chairman, bearing fresh news from the bar. "It's 2-1 Braves. That's the important thing!" he crowed.

It was time to feed the other addiction for a while. The junkies were ready for baseball.

Nicaragua mass rallies end election campaign

By Johanna Tuckman in Managua

Campaigning for Sunday's general elections in Nicaragua has ended following mass rallies in support of the two leading presidential candidates.

The winner of the battle of the rallies was Mr Daniel Ortega, Sandinista candidate and president during the revolutionary government of the 1980s. Hundreds of thousands of red and black clad Sandinistas cheered Mr Ortega's speech on Wednesday night in which he promised to include all social forces in a government that would provide the basis for economic recovery.

Earlier in the day, under torrential rain, Mr Arnoldo Alemán, rightwing Liberal Alliance candidate, told supporters his administration would bury for ever the painful memories of Nicaragua's conflict-ridden past and create 100,000 new jobs in its first year.

The Sandinistas' final show of strength far outdid the Liberal rally. But in 1990 massive pro-Sandinista demonstrations did nothing to prevent Mr Ortega losing the presidency to centrist Mrs Violeta Chamorro.

Some last-minute opinion polls suggested Mr Alemán was on the threshold of the 45 per cent he needs to win the presidency outright. Others indicated Mr Ortega might force a second round run-off, or even snatch victory. All the polls foresee turnout of over 80 per cent.

Organising a smooth election in a country where many roads are impassable from heavy rain, and a complex set of rules from a reformed electoral law are being implemented for the first time is no easy matter.

Former US president Jimmy Carter's Carter Centre has been monitoring the election preparations.

NY to seek tobacco damage suit

By Richard Tomkins in New York

Mr Rudolph Giuliani, the high-profile mayor of New York, was yesterday expected to announce that the city was joining the growing ranks of states and cities suing the US tobacco industry to recover smoking-related healthcare costs.

The city was due to file a lawsuit in New York State's supreme court seeking to recover billions of dollars spent by the city on treating smoking-related diseases under public sector healthcare programmes, notably Medicaid.

According to the Coalition for a Smoke-Free City, an alliance of New York area health groups, these costs total more than $2bn a year.

R.J. Reynolds, the tobacco subsidiary of RJR Nabisco, the second biggest US tobacco company, said there were no grounds for the lawsuit: "The mayor may garner some political mileage out of this filing, but that is all."

The lawsuit brings Mr Giuliani into conflict with the tobacco industry for the second time since he became mayor at the beginning of 1994. Last year he signed into law a ban on smoking in a wide range of public places, including restaurants seating more than 35 people, and sports stadiums.

Some 16 states and several large cities, including San Francisco, have filed similar suits against the tobacco industry, but New York State is not among them.

None of the cases has yet gone to trial. The tobacco companies say they are confident they will win as they have in most previous cases, but they suffered a blow in August when a Florida jury awarded $750,000 to a lung cancer patient.

Rising oil price is threat to pace of Venezuela reforms

Rising oil prices have spelt disaster before for economic reform programmes in Venezuela. In 1990, Saddam Hussein marched into Kuwait, oil prices soared and the government's reform plans evaporated.

Now with oil prices rising once again courtesy of the Iraqi dictator, questions are being asked about the Venezuelan government's commitment to the market-oriented measures it introduced six months ago.

"Historically, high oil prices usually have been no friend of sensible economic policy in Venezuela," said Mr Jim Nash of Nomura Research International in New York. Mr Franklin Santarelli, an analyst with Metroeconomica in Caracas, added: "Given the new sources of income it is likely that the pace of reform will be slowed."

However, Mr Luis Matos Azócar, the Venezuelan finance minister, insists that this time things will be different. President Rafael Caldera last weekend made "a strong political commitment to keep the process moving forward".

"This is a very important statement at this moment because many people think that because of the oil windfall we won't follow through," he said in an interview in London.

This included a pledge on privatisation, which is meeting strong domestic opposition. "We are going ahead with the privatisation as scheduled, no matter what the political cost of the decision," he said.

Caldera: strong commitment

The proposed flotation of 40 per cent of the telephone company Cantv would go ahead before the year end, as would the previously postponed sale of Banco de Venezuela. In the first quarter of 1997 the aluminium company of the state industrial holding company CVG would be sold.

The government was also pushing ahead with a special fund for windfall oil income and privatisation revenues, aimed at reducing the country's debt burden. The fund has already been established by decree, but needs legislative approval.

"We can't try to create aggregate demand by government expenditure," said Mr Matos, who is expecting the non-oil economy to contract by 3.5 per cent this year, but projects 4 per cent growth next year and 6 per cent in 1998.

Mr Caldera's government embraced market-oriented reform six months ago. Backed by the International Monetary Fund, it was aimed at correcting chronic budget deficits and reforming the structure of the economy to allow the private sector more room. It included lifting exchange controls, unpegging the exchange rate and selling off state enterprises.

Privatisation, which the government estimates could raise $5bn by mid-1998, was important as a contributor to structural and fiscal reform, since 70 per cent of government spending goes to public enterprises.

So far, the programme has been more successful than most people expected, thanks in part to higher oil prices, and has been greeted enthusiastically by financial markets. After years of deficit, a public sector surplus is expected this year.

When the currency was floated in April, instead of slumping as many people expected, the bolivar appreciated.

It has risen by 34 per cent in real (inflation-adjusted) terms since the flotation, while foreign exchange reserves have risen by $3.7bn to $13.5bn, allowing the government to pass up the second $500m tranche of an IMF loan.

It has also led to currency overvaluation. "An overvalued currency in the short-term makes everyone happy," said Mr Pedro Palma, vice-president of Booz Allen & Hamilton in Caracas.

"It anchors the inflation and makes imported luxury goods cheaper. But in the long run, it's a sure road to a crisis: sudden devaluation, capital flight and then a Mexico-style crisis."

The inflows of capital, exacerbated by the obligatory exchange of oil revenue dollars into bolivars, have also contributed to a excessive expansion of the money supply, risking resurgence of inflation.

Mr Matos said that the government would repay its debts to the central bank. The bank would then be able to issue more securities to soak up excess liquidity.

Furthermore, the government would clear up debt arrears to other domestic and foreign creditors by the end of the year.

Government officials agree there is much to do, apart from privatisation, to reform the public sector.

In the short term, the biggest challenge will be to present the population with tangible evidence that it is benefiting from the changes. This will not be easy given that average incomes have fallen to 1968 levels. No wonder Mr Caldera's popularity has plummeted.

For this reason, many observers believe the government will be tempted again to use oil revenues to spend its way out of its troubles. "Here's to the party while it lasts," said Nomura's Mr Nash.

"Eventually, there *will* be a morning after."

Stephen Fidler
Raymond Colitt

NEWS: WORLD TRADE

Big Japanese carmaker considers joining Korean rivals in newly developing market

Toyota looks at big E Europe investment

By Haig Simonian, Motor Industry Correspondent

Toyota, the world's second biggest carmaker, is considering building vehicles in eastern Europe – potentially the most significant investment by a Japanese manufacturer there since the collapse of communism.

Mr Akira Yokoi, executive vice-president, said Toyota's production specialists had been studying a project to build cars for the past year. The company has already looked at creating a sales and distribution network in the region following the political and economic liberalisation of the early 1990s.

Mr Yokoi, who this year took responsibility for Toyota's international activities, said the study was incomplete. However, it had already concluded that any east European plant would have to cater for demand from beyond the region to be profitable. Toyota had not decided whether the target market should include the former Soviet Union or western Europe. The decision would largely dictate what models might be built, he said.

Japanese carmakers have lagged their Asian rivals in expending into eastern Europe. The one exception, Suzuki, assembles vehicles in Hungary, where it expects to raise production to 50,000 units this year. By contrast, Korean manufacturers have expanded much more aggressively. Daewoo, Korea's third biggest carmaker, bought control of FSO, the big Polish state-owned carmaker, this year. Kia, another Korean marque, will assemble vehicles in Russian-controlled Kaliningrad, while Hyundai, the country's biggest car company, plans to assemble vehicles in Poland.

> An east European plant could help Toyota meet its target of 4% of the west European market

Mr Yokoi said: "Although it looks as though we've fallen behind, we are not indifferent." He declined to say when the study would be concluded, or what it might propose. However, the work was proceeding "intensively".

Mr Yokoi said the study would include making components as well as cars with the involvement of Japanese parts manufacturers associated with Toyota.

An east European plant could help Toyota meet its medium-term target to raise its west European market share to 4 per cent from about 2.5 per cent. Although the company has followed Nissan in building a plant in the UK, Mr Yokoi said Toyota's market share did not adequately reflect its size and importance.

Part of the planned growth will come from a second model to be built alongside the Carina E car at Toyota's UK factory. The new model, based on the Corolla, will give the company a locally-built contender in the biggest segment of the European car market. However, Mr Yokoi said Toyota would still lack a smaller, locally-built vehicle to complement its range of European-built models.

Avionics key to Abu Dhabi dogfight

Robin Allen reports on the multinational contest to supply advanced fighters to the Gulf state

The contest to supply Abu Dhabi with up to 80 advanced combat jets has been long and hard.

After 18 months of negotiations and several missed deadlines, Abu Dhabi has kept the world's biggest defence contrsctors on tenterhooks for the deal worth between $6bn and $8bn.

The list of four initial contenders is now down to a shortlist of two. Lockheed-Martin's F-16 is the front-runner and preferred choice, with the Mirage 2000, made by Dassault Aviation of France, closely on its heels for a share of the deal.

The final awards rests on whethar Lockheed Martin will to supply all the avionics, electronics weapons systems, stand-off missiles and support systems which Abu Dhabi wants. The add-on technology could lift the total valne of the deal, over several years, to up to $12bn, according to defence experts.

"Meantime Abu Dhabi will not allow the US to be sure Lockheed has won," senior diplomats said. "This is Abu Dhabi's way of getting the price down and ensuring it gets everything it wants."

The F-16 fits Abu Dhabi's requirements for the next 10 years, in that it is a single-seater, fast and manoeuvrable, according to defence analysts.

If the US does not fully satisfy Abu Dhabi's demands for the latest avionics and technology, then the French option would be used as a bargaining chip. In this case, Abu Dhabi would buy fewer F-16s; and make up the difference with more Mirage 2000s, and by upgrading some 40 already in service with Abu Dhabi's airforce.

British sources who said that the GR4 was out of the running, expect Abu Dhabi to opt for a combination of F16 and Mirage 2000s if the US failed to come up with all the avionics. In such a case, they expect the combination ratio to be 50-60 F-16s and up to 24 more Mirage 2000s.

The French are have been pressing hard for a sizeable chunk of the order, according to defence experts. However, France does not have an aircraft now to match the F-16, according to defence analysts.

Their newest fighter, the Rafale, will reportedly not be ready until 2004-2005, two years after the UK/German/Spanish/Italian Eurofighter.

Out of the running are the US's McDonnell-Douglas F-15 fighter-bombers, and the UK British Aerospace's GR4 Tornado ground-attack aircraft.

Tha main disadvantage of the F-15s under consideration was that they needed a two-man crew, and Abu Dhabi can barely find 80 pilots to fly the single-seat aircraft.

Prospects for the Tornados suffered for the same reason: "You need two pilots just to keep the Tornado in the air," said one industry expert. The McDonnell-Douglas F-15 which does have a single-seat variant was not considered as an option.

Abu Dhabi's priorities have been decided by the UAE's armed forces chief-of-staff Sheikh Mohammed Bin Zayed, head of Abu Dhabi's airforce and son of Abu Dhabi's ruler and UAE president Sheikh Zayed Bin Sultan Al-Nahyan, with whom the final decision lies.

An official announcement is not expected until the international defence exhibition being hosted by Abu Dhabi early next year or possibly on Abu Dhabi's national day on November 7.

The US is also seen by Abu Dhabi officials as the most promising of western suppliers for Abu Dhabi's embryonic offset programme, a critical component of any defence deal.

Abu Dhabi requires winning defence companies to invest the equivalent of 60 per cent of the value of the primary contract in projects with local investors on a 49/51 per cent basis over a seven-year period.

So far however Abu Dhabi's offset programme has made slow progress, with only one significant offset agreement - significantly with a US company - in six years.

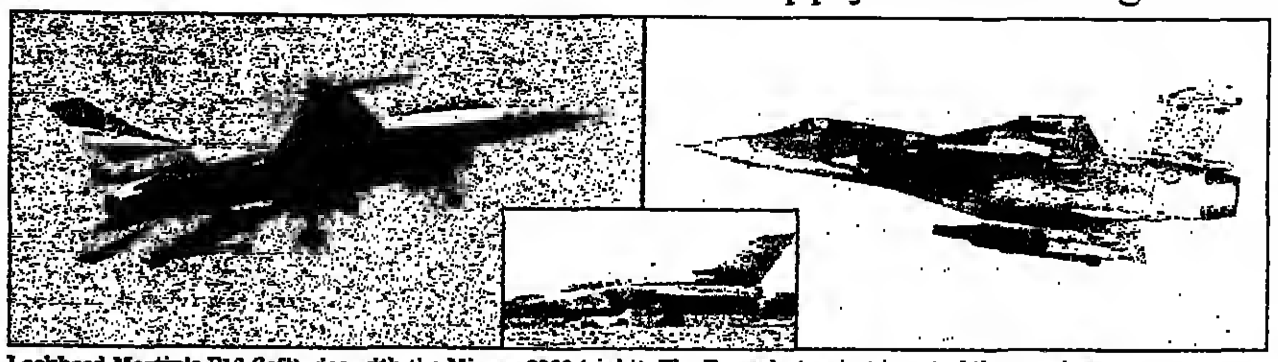
Western defence companies have complained of the scale of Abu Dhabi's offset ratio which is twice as big as any other Gulf country.

Moreover Abu Dhabi does not have the indigenous committed manpower to make use of an offset programme; nor can it find profitable investment areas.

Abu Dhabi officials reportedly expect strong resistance from the Israeli lobby in the US over the sale of advanced electronics for the F-16s. The Israeli lobby is likely to argue that the most advanced avionics have not been heen sold abroad anywhere – let alone to a Gulf state.

However, Israeli influence in Washington has been weakened by Israeli sales to China of guidance systems for Chinese missile development; missiles which are reportedly being sold to Iran.

Such sales by Israel would contravene US laws. Senior US officials are said to be "seriously concerned" by the scale of Israel's military collaboration with China.



Lockheed Martin's F16 (left) vies with the Mirage 2000 (right). The Tornado (centre) is out of the running

WORLD TRADE NEWS DIGEST

Chilean leader lifts UK spirits

Scotch whisky distillers were optimistic yesterday that complaints about Chile's liquor tax regime voiced to Chilean president Eduardo Frei on his visit to London this week will result in fairer duties on imported spirits.

The distillers say Chile's duty on spirits discriminates against imported liquor, particularly whisky, to the benefit of domestic producers of pisco, the local spirit. Spirits of greater than 43 degrees proof, which include most whiskies, are taxed at a 70 per cent rate, while those of less than 35 degrees, which includes most pisco, at 25 per cent.

Speaking at the end of his visit, President Frei said: "We are studying a modification of the law that would ensure it respects WTO rules." Whisky's share of Chile's spirits market dropped from 19 per cent in 1982, when the current tax regime was introduced, to 4 per cent in 1992, while pisco's share rose from 45 per cent to 79 per cent. *Stephen Fidler, Latin America Editor*

Apec to prepare action plan

Officials from the 18-member Asia Pacific economic co-operation (Apec) forum meet in Manila today to prepare final details of the group's timetable on trade liberalisation. The negotiations – the last meeting of officials before a week of talks in Manila next month which culminate with the Apec leaders summit on November 25 – are expected to produce a draft document known as the Manila action plan.

The plan, which will provide details of each country's timetable for eliminating tariffs by 2010 for developed members and 2020 for developing members, will be endorsed by the 18 leaders next month. Officials will also negotiate details of the collective action plans including moves to harmonise customs procedures and initiatives to integrate regional trade. *Edward Luce, Manila*

Fiat looks at Bombay sites

Fiat of Italy is progressing with a proposed $850m investment to build a factory near Bombay with a capacity of about 100,000 cars a year. Fiat officials, led by chief exective Mr Roberto Testore, yesterday inspected sites for the proposed new factory. Mr Manohar Joshi, the chief minister of Maharashtra state said the visiting delegation was looking for a site of about 250 acres of land outside Bombay. *Foreign Staff*

■ Royal Ahold of the Netherlands yesterday said it was planning a 50/50 joint venture with the China Venturetech Investment Corporation to establish a modern supermarket chain in China. A new company, Shanghai Ahold-Zhongbui Supermarket, will concentrate in its first years on developing supermarkets in Shanghai, with a planned investment of $50m. *AFX, Zaandam*

■ Alcatel of France has won telecommunications orders in Thailand and Vietnam with a total value of FFr1bn ($192m). The contracts will allow the unit of Alcatel Alsthom to strengthen its position in these regions, where markets for fixed and mobile phone services are growing by 20-25 per cent a year. *AFX, Paris*

■ Vietnam has allowed 12 foreign law firms already operating there to set up a second office in the country. The firms include Baker & McKenzie, Coudert Bros, Freshfields and Clifford Chance. *Jeremy Grant, Hanoi*

NEWS: ASIA-PACIFIC

Poll could mark next stage after one-party rule and chaotic coalitions

Three-party Japan in making

JAPANESE ELECTIONS October 20

Japan's recent wobbly governments might just become more coherent and stable as the result of the country's general election on Sunday. It will be the first such poll since the conservative Liberal Democratic party lost its nearly four-decade monopoly on power in 1993, the starting signal for a hectic scramble for a new order by four successive disparate coalitions.

The outcome is harder than usual to predict because this will be the first trial of a new voting system, a mixture of first-past-the-post single-seat districts and proportional representation, which replaces multi-seat constituencies. It is intended to curb Japanese politicians' habit of wooing voters with favours rather than policies, and gives more say to city dwellers at the expense of rural districts.

The latest opinion surveys suggest that a chastened LDP is in the ascendant and might even win a small majority. If so, that would represent a remarkable step back to the old power structure and could well – paradoxically – galvanise the opposition.

But for what it is worth, the LDP is planning on the assumption that it will come in just short of the seats needed to run a stable one-party government and must therefore form another coalition. It has already started courting partners.

Leading new coalition candidates are disillusioned members of the main opposition group, the broadly conservative New Frontier party. Six members of the NFP, formed by mainly LDP defectors two years ago, have already taken fright at their party's poor showing and rejoined LDP ranks.

The second possibility is another conservative opposition group, the Democratic party, formed only last month. It has so far kept a demure distance from the LDP.

Any of these combinations would be very different from previous alliances, in which the second largest and most difficult partner was the Social Democratic party. The SDP scrapped many of its policies to get a taste of government with its former foe, the LDP, which is why it is expected to lose perhaps half its seats on Sunday. Some SDP values remained, and the need to accommodate these sometimes paralysed government policy.

Thus the election could – if the polls are correct – mark the third step of Japan's post-war political development, from one-party government, to chaotic coalitions with fragmented oppositions, to a three-party system of LDP, NFP and DP clustered around the centre. The small parties which emerged over the past three years could be marginalised. So might the SDP, to the benefit of the Communists.

If the election does work out that way, legislation blocked by the SDP in the outgoing coalition, would probably move forward. That includes a proposal to allow the formation of financial holding companies, long sought by Japanese companies eager to reduce costs at a time when they are beset by international competition, but blocked by the SDP's fear of creating more monopolies.

Also on the stocks is a plan to split Nippon Telegraph and Telephone, the telecommunications semi-monopoly, into long-distance and local operators, blocked by the SDP because of its sensitivity to union support. A debate on corporate tax cuts could also revive.

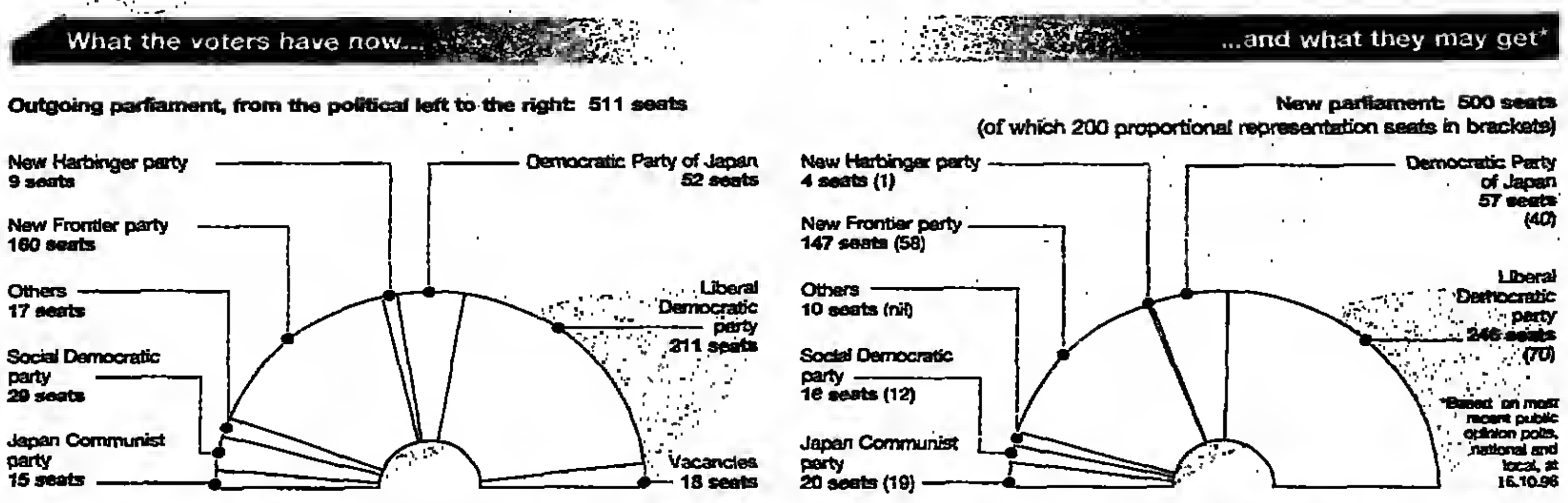
A conservative coalition also would probably remove the SDP threat to a proposed rise in sales tax from 3 per cent to 5 per cent next April. Further ahead, it is harder to predict what the new order will look like. Will it be back to an LDP monopoly dominated by special interest groups, or will a three-party system take root?

Money politics, the LDP's special forte, is still a big part of getting elected, despite the new system. It may take several more general elections for politicians to work out which policies, rather than financial inducements, will win urban consumers in a modern, less closed, economy. But the signs are that Japan's much vaunted political realignment is inching, if unevenly, forward.

William Dawkins

Puzzled? Voters will be when they try to solve this riddle

Japan votes: the parliament, parties and politicians



Ryutaro Hashimoto

Veteran politician and 11-time member of parliament, the 59-year-old prime minister has a fair chance of winning a second term in the top job. As well as being the sitting prime minister and leader of the largest party in the ruling coalition – no small advantage in an election with few burning issues to guide the voters – Ryu-sama, as he is affectionately known among his large female following, has managed to endear himself with his slicked-back hair and Kabuki-actor looks, in much the way that Ronald Reagan won over many Americans with his reassuring smile. However, unlike Mr Reagan, Mr Hashimoto is well-versed in policy, capable of putting to shame the bureaucrats briefing him. Although strong leadership and an ability to draw the big picture are not his forte, Mr Hashimoto consistently emerges as among the most popular politicians. With him fronting the party, the LDP should easily increase its seats, if not win an outright majority.

Ichiro Ozawa

Voters who are not avid supporters of the New Frontier party, the largest in opposition, are unlikely to be impressed by the advertisements featuring a lifesize portrait of Mr Ozawa, the 54-year-old party boss. But the smile on the bodyless face cannot change the public image of a man seen as a back-room political fixer: feared but respected as the only man capable of keeping the NFP's disparate elements together. The straight-talking Mr Ozawa built his reputation on a clear vision for reforming the Japanese system and on his considerable political skills but, since leaving the LDP, his political fortunes have faded. Moves such as an opposition blockade of parliamentary proceedings to protest at the bailout of failed housing loan companies have made him as unpopular as Mr Hashimoto is popular. The NFP has a formidable political organisation but could suffer a fall from its current strength.

Takako Doi

Having lost a substantial number of its members to the new Democratic Party of Japan, the Social Democrats are counting on the huge popularity of Ms Doi, the country's first female parliamentary Speaker, to save their party from extinction. Known as the Iron Butterfly, the 67-year-old Ms Doi has became a national heroine, particularly among housewives, for her strenuous opposition to the consumption tax. "What can't be done," she declares, "can't be done." Ms Doi kept a relatively low profile during the SDP's unholy alliance with the LDP and, although she has come back as party leader to try to revive the socialists' fortunes, her chances still seem slim. Her vows to review the consumption tax ring hollow, given that the SDP, as a member of the governing coalition, agreed to increase it. The socialists are widely expected to see their numbers in parliament greatly diminished.

Yukio Hatoyama

The many qualities of the 49-year-old Democratic party leader – upper class demeanour, nice manners and liberal views – make him the kind of person everybody wants to know. But his talk of friendship, love and peace and the fact that his family is one of the richest in Japan have earned the party a reputation for resembling soft ice cream. The party has therefore turned to Mr Naoto Kan, the extremely popular 50-year-old health and welfare minister, to counter accusations that the party, formed by Mr Hatoyama just a month ago, represents nothing more than mushy ideas. A dedicated civil rights activist, Mr Kan has become one of the most trusted politicians in Japan, by forcing bureaucrats to admit their responsibility in the scandal involving the use of tainted blood products. His popularity has ensured that just about every DP election poster shows the party's candidates shaking hands with the new hero rather than with the party's founder.

Profiles by Michiyo Nakamoto

Confused? The average Japanese voter certainly is. According to a recent opinion poll, more than half those asked said they did not properly understand the way the new electoral system works. It is to be hoped they find out by Sunday, since the format is likely to be one of the most critical determinants of the outcome of the vote.

The new system was introduced after years of clamour for reform. It was intended to produce a more transparent, less corrupt political framework. The old machinery – multi-member constituencies in which electors had just one vote, was a direct encouragement to "money politics", where candidates competed on the basis of how much largesse they handed out to their constituents rather than on political differences.

It was also seen as a cornerstone of Japan's unwieldy multi-party system. While one party, the LDP, always dominated, the rest of the votes were spread bewilderingly around smaller opposition parties. The change was supposed to promote the development of a two-party framework.

The new arrangement is a hybrid, the product of a traditional Japanese compromise. Voters will cast two simultaneous ballots – one in 300 small single-member seats, where the winner will be decided on the basis of simple plurality (first past the post); the second will be cast in one of 11 giant multi-member constituencies, which will return 200 MPs.

In the first, the elector votes for an individual, usually with a party affiliation. In the second, he chooses simply a party, and seats are distributed using a method which will produce a roughly proportional outcome.

As with most compromises, the new system will probably produce none of the results initially intended. Certainly, little evidence exists that money politics is on the way out. Candidates are still quietly promising to continue the largesse, and those offering the greatest prizes are as popular as ever.

But it is the new system's party political consequences that may be most unexpected and most significant.

The predominance of simple plurality seats should enhance the position of the larger parties, especially those whose support is geographically concentrated. But it also means that with a multiplicity of fairly competitive parties, some very close results could occur, and a party could easily win with a very small proportion of total votes cast.

Both these factors will heavily favour the LDP. Their traditional strength in rural Japan will ensure a near clean sweep in the countryside. But even in the cities, where there are more seats this time a result of redistribution, the LDP will be the big beneficiary of the new system.

The two main opposition parties, the DP and NFP, are, in many urban areas, likely to garner 50 per cent or more of the vote between them. But if that vote is split fairly evenly, as seems likely, the LDP could break through in style, winning many seats with not much more than a third of the vote.

Parties with wide, relatively thinly spread popular support will not fare so well. This could hit the DP especially badly. Current polls suggest they will pick up about 20 per cent of the vote nationally, but win only 20 or so (7 per cent) of the single-member constituencies.

Some of these distortions will be compensated for in the multi-member constituencies, where, given rough proportionality, the LDP is likely to fare less well, and the DP and NFP rather better. There, 20 per cent of the vote for the DP should translate into about 20 per cent of the seats.

Overall, because of the preponderance of single-member seats, if the LDP manages to maintain the share of the total vote it received last time – about 36 per cent – it is quite likely to win enough seats to gain an overall majority. No wonder voters admit to being confused.

Gerard Baker

Election circus set to tempt the jaded

A chat-show star, singers and a wrestler are running against the politicians

Sachiyo Nomura is defiantly frank in confessing complete ignorance of government and politics. At least she's honest, she says, "unlike professional politicians", so why not run for election?

In a country of baseball fanatics, some believe Mrs Nomura, 64, has strong prospects in the October 20 national election. As the sharp-tongued wife of Katsuya Nomura, manager of one of Japan's best-known baseball teams, the Yakult Swallows, Mrs Nomura has become a feature in the vast circus of Japanese television talk shows.

With characteristic bluntness, she readily agrees that her celebrity status, more than any other quality, prompted Mr Ichiro Ozawa, leader of the main opposition New Frontier party, to ask Mrs Nomura to run.

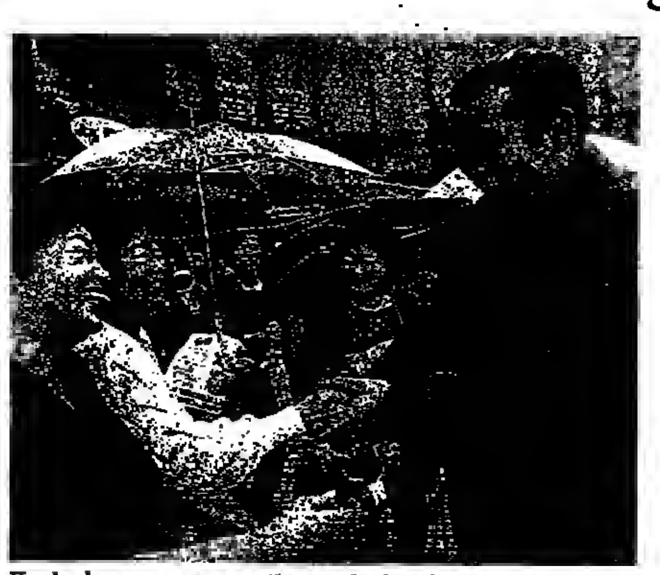
Her raspy voice, heavy make-up and outspoken manner are known to make many Japanese wince. But Mrs Nomura, who says mothers are the most important factor in society, feels she has special appeal for women voters.

With her baseball connections and her chat-show fame, Mrs Nomura possesses potent qualities in an election campaign devoid of issues and marked by widespread voter uninterest.

In the week leading up to the election, national polls have found that between one-third to one-half of eligible voters are undecided; many are wondering who they will vote for or whether they will vote at all.

That would suggest a good chance for Mrs Nomura and a host of unlikely candidates to tempt the uncommitted and the disillusioned. The celebrity line-up of aspiring politicians includes Kyokudozan, the first practising sumo wrestler to run for office, professional tennis players, television personalities, boxers, actresses and singers.

Kyokudozan's real name is Kazuyasu Hata. But like other celebrity hopefuls, he has registered his candidacy under his "stage name," and kept his sumo top-knot. Victory, the 32-year-old wrestler conceded, could present some difficult situations in public office. But name recognition in his case is half the battle.



Kyokudozan: sumo wrestler on the hustings

Kyokudozan is running for the New Frontier party, as is former professional tennis player-turned-TV-commentator, Ms Naoko Sato. Ms Sato, 41, running against an LDP incumbent in central Tokyo, is more coy about her credentials than the other celebrities. Her main concern, she says, is to assure her constituents she is not using her fame merely to gain support from the uncommitted. "With my undying energy and enthusiasm, I hope to make a change, even a small one," she said.

The conservative LDP is fighting back with celebrity candidates of its own, including Mr "Guts" Ishimatsu, a former World Boxing Council champion-turned-actor, running under his adopted name in a hotly-contested district of north-west Tokyo. Mr Ishimatsu rarely uses his real name, Yuji Suzuki.

"'Guts' is an important name. We're depending on undecided voters with no party affiliations and we're up against an incumbent with strong support," a campaign team member said.

"Basically I think the élite world of Japanese politics could use a tough guy like myself," says Mr Ishimatsu.

Mrs Nomura is similarly blunt, and has been campaigning solely on the theme of "motherhood", repeatedly promising to be a "mother for the Japanese people. I can't discuss platforms and policies, and won't make promises I can't keep, until I get into office and see what I CAN do," she says.

She was recently nonplussed when asked to comment on Japan's territorial dispute with China over islands in the East China Sea. "That's very difficult, you can't answer that in a nutshell. I can say I don't like to fight wars, but for the rest, I'd like to wait until I get into office," she replied.

From the campaign sound-trucks that patrol her well-heeled electoral district in Tokyo's west, Mrs Nomura loudly urges Japanese mothers to improve the upbringing and education of their offspring.

Her opponent, a seasoned MP and member of the mainstream LDP, talks mainly of administrative reform and other weighty issues. But Mrs Nomura knows she is largely playing to an audience much like herself.

Gwen Robinson

ASIA-PACIFIC NEWS DIGEST

Seoul defence minister axed

South Korea's president Kim Young-sam yesterday sacked his defence minister and reshuffled the military high command in response to public criticism over the intrusion of a North Korean submarine last month. Mr Lee Yang-ho was replaced as defence minister by General Kim Dong-jin, who resigned yesterday as chairman of the joint chiefs of staff. Gen Kim was succeeded in his military post by the army chief of staff, General Yoon Yong-nam.

Also, the heads of South Korea's three army groups and the deputy commander of the US-South Korean combined forces were replaced. The military has been criticised for not detecting the North Korean submarine for several hours after it went aground on the east coast a month ago. The military reshuffle comes amid growing tensions over the submarine incident.

The government recently decided to increase the 1997 defence budget 13.5 per cent to $17bn. The main opposition party claimed Mr Lee was sacked as defence minister after it alleged he provided classified information on plans for weapons procurement to an arms dealer. Mr Lee has denied the charge. *John Burton in Seoul*

Thai borrowing curb shelved

Thailand's central bank has suspended implementation of a plan to curb the amount of foreign borrowing by commercial banks and companies. The announcement of the plan on October 4 was partly to blame for the steep decline in the shares of banks and finance companies, the most popular holdings of foreign investors.

Central bank officials said the policy was reversed because the level of short-term foreign debt, the original target of the measures, was falling, due to other regulations issued earlier in the year. The bank's department of economic research said recently that only 10 per cent of foreign debt created by the banking sector in August was short-term, against about half in the first six months of the year.

Officials said several banks had stated they needed more time to adjust to the rules, which called for domestic banks to limit their new loans in foreign currencies to 7 per cent of their total loans in baht. If short-term foreign debt was still considered a problem, the rules could be officially implemented, beginning next year.

The level of foreign debt has been highlighted recently by the downgrade of Thailand's short-term sovereign debt rating by Moody's to Prime-2 from Prime-1. Most foreign debt comes through the banking sector; the central bank is worried that failure to curb this could imperil the country's long-term credit rating. Analysts said the commercial banks were likely to follow the central bank's guidelines, for fear these would be officially implemented if short-term foreign debt levels remained high. This means bank profits would continue to be under pressure because of the need to raise local deposit rates for funding purposes. *Ted Bardacke, Bangkok*

Delhi rule for Uttar Pradesh

India's United Front government yesterday re-imposed central rule on the state of Uttar Pradesh, the country's most populous, after the Hindu nationalist Bharatiya Janata Party and its secular opponents failed to form majority coalitions. Though the BJP won 174 seats in the 425-member assembly, it proved unable to attract the support of any of the other main winners from elections earlier this month.

The state's United Front was unable to reach agreement with an alliance of the Congress (I) and the low-caste Bahujan Samaj parties. The United Front in New Delhi said it was forced to re-impose central rule after expiry yesterday of the year-old mandate for "President's rule" imposed last October after a short-lived alliance between the BJP and BSP collapsed.

Congress (I) has insisted the front support its alliance with the BSP in government, in return for existing Congress "support" in New Delhi. Mr Sitaram Kesri, Congress president, threatened to withdraw support from the national coalition, if the state United Front did not comply. Analysts consider it unlikely Congress would plunge the country into a second general election this year. *Mark Nicholson, New Delhi*

Burma dissidents meet

Members of Burmese opposition leader Aung San Suu Kyi's National League for Democracy (NLD) party are meeting this week, despite blockades set up outside her home by the military government, an NLD source said yesterday. Ms Suu Kyi and other top NLD officials have been meeting groups of elected party representatives and senior party members to define policy, he added. "We tried in vain to hold a party congress twice," the NLD source declared. Gatherings of several dozen NLD members planned for last Monday, Wednesday and tomorrow were meant to be a substitute for a larger party congress.

The meetings were held at the homes of senior NLD officials since Ms Suu Kyi's house, the normal venue for gatherings, was made inaccessible by roadblocks on streets leading to her house. Set up last weekend, they have still not been removed. *Reuter, Rangoon*

Sri Lanka to reform laws

Sri Lanka yesterday announced plans to reform the country's archaic legal system to allow speedy settlement of commercial disputes, regulate monopolies and mergers, and strengthen financial markets. Justice Minister G.L. Peiris said present laws were inadequate to deal with monopolies, unfair competition, satellite broadcasts and intellectual property violations.

"We hope we can identify within a year the areas that need change, and institutions that need strengthening," Mr Peiris said. "What we have in the country at the moment is a rudimentary law relating to fair trading. Our company law is based on the British company law but we have not kept pace with the developments in that country."

A more streamlined legal system could be an inducement to foreign and local investors. The reforms are also expected to cover stock exchange transactions and future capital markets. *Amal Jayasinghe, Colombo*

Ramos hope for Apec summit

The grouping of the Asia-Pacific Economic Co-operation forum could develop into a true "community of nations" at a summit next month, Philippine president Fidel Ramos said yesterday. "Such a development is of transcendent importance to all our economies," he added. His comments came ahead of a three-day meeting of Apec officials starting in Manila today, aimed at hammering out preparations for a regional free trade area.

The officials will discuss issues left unresolved at a conference in August, including the absence of a common format for individual action plans on freeing trade and investment, specific measures to be taken by members, and a moratorium on new members, expiring at the end of 1996.

Philippine foreign secretary Domingo Siazon has said support is growing in the group for Peru and Vietnam to be accepted as members. The meeting paves the way for a summit of the leaders of the 18 Apec economies, to be held in the Philippines on November 25, which is expected to endorse the free trade plan. Meeting in 1994 at Bogor, Indonesia, the Apec members agreed to remove trade and tariff barriers in the region by the year 2010 for developed nations and by 2020 for developing nations. *AFP, Manila*

Patchy recovery in Japan economy

By William Dawkins in Tokyo

Japan's recovery continues to be moderate and patchy, according to data on money supply, industrial production and retail sales published yesterday.

Money supply growth slowed in September due to weak loan demand by companies increasingly tapping the bond market, rather than banks, for cash.

Growth in M2 (cash in circulation plus demand and time deposits) eased to a preliminary 3.5 per cent from the same month last year, lower than the market had expected and well below the revised 3.7 per cent growth achieved in August.

That is enough, said economists, to sustain the present modest recovery of about 1.7 per cent in gross domestic product, in the year to March, the mid-range of private-sector forecasts.

"The economy is cruising on a mild recovery track," Mr Yasuo Matsushita, BOJ governor, said. The bank's loose monetary policy, with an official discount rate at a record low of 0.5 per cent since September last year, would remain unchanged for the time being, he said.

Lower than expected money supply expansion adds weight to the risk of a slowdown in general economic growth early next year, warned Mr Russell Jones, economist at Lehman Brothers in Tokyo.

Money supply has failed to grow at more than a small fraction above the present level since the economic slowdown hit five years ago.

Weakness of corporate demand for bank lending was highlighted by separate figures, showing outstanding loans by all banks rose by just 0.2 per cent last month, from September last year, to Y530.63bn ($4.76bn), the smallest increase in 17 months. Another sign of slower than expected activity emerged yesterday when Miti revised the month-on-month decline in industrial production in August from the provisionally estimated 1.9 per cent to 2.3 per cent.

Inventories of unsold goods and materials rose 0.8 per cent in the same month, slightly up on 0.6 per cent initially reported.

The economic landscape is not uniformly dull. Department store sales in Tokyo rose 4 per cent in September, compared with the same month last year.

Editorial Comment, Page 15

Tung sets sights on Hong Kong's top job

When earlier this year Mr Tung Chee-hwa, the shipping tycoon, was considering whether to run for the post of Hong Kong's first post-colonial governor he had in his office a Harvard Business Review study entitled A Company is Not a Country.

Now, however, as he prepares to declare his bid to steer the territory through its transfer to China in July next year, Mr Tung's record at his company and his business standing will be seen as a pointer to his political prospects.

At first sight, the story might seem alarming. In 1985, a few years after Mr Tung took the helm as chairman of Orient Overseas, the shipping group suspended payment on the principal of its loans, prompting one of the biggest rescue operations of the decade.

"It was the third largest restructuring going on, behind Chrysler and Lockheed," says Mr Harry Wilkinson, who chaired the creditors' committee representing 200 banks and who took over as chief financial officer of Orient Overseas earlier this year. "It had debts of US$2.6bn and was the second largest shipping group in the world."

Much of the blame lies with the international industry crisis of the early 1980s, which struck other shipping giants such as Sanko of Japan. And once the crisis became clear, Mr Tung won plaudits for his role in the group's recovery.

"He was working 20-hour days, seven days a week," says Mr Wilkinson. "He took a calm, rational approach to a situation where nine out of ten people would have walked away." Another banker involved in the rescue concurs: "He was straight, clear and very committed."

That Orient Overseas is now re-established as one of the world's largest shipping groups, with net profits rising fourfold to US$71m in the first half of the year, is testimony to improved efficiency and financial controls. And within the company, Mr Tung receives as much credit for his style of management as for its financial results. "He listens a lot, he is not an autocratic manager in the mould of some Hong Kong magnates," says one employee.

Tung Chee-hwa: business standing seen as pointer to political prospects Reuter

Outside the shipping group, this style has prompted questions about whether Mr Tung is tough enough for the daunting challenges of the top job after the handover to China. The Chief Executive, as the head of the government will be known, will be responsible for defending Hong Kong's promised autonomy.

Mr Tung's tortuous path to declaring his candidacy suggests reservations about, or at least a realisation of, the dilemmas this may present.

Other questions concern the role of China in the rescue of Orient Overseas. Ms Emily Lau, the independent legislator, argues that Beijing provided the backing for a capital injection which bailed the company out. This, she says, explains China's apparent backing for Mr Tung – famously signalled in a handshake from President Jiang Zemin earlier this year. But it also brings concerns. "It is obviously a bad thing if the Chief Executive is indebted to the sovereign power," says Ms Lau.

Beijing's role, if any, in helping to secure the capital injection remains unclear. As part of the rescue, the Japanese banks insisted on fresh funds. These were duly supplied by Mr Henry Fok, a Hong Kong businessman and a senior adviser to Beijing, who invested US$120m in the shipping group through his company Treelane.

"The situation is that Henry Fok made the investment," says Mr Wilkinson. "Does he have that kind of money on his own? Heck yes."

Business connections raise other issues for Mr Tung. His candidacy is backed by Mr Li Ka-shing, one of Hong Kong's most prominent industrialists with interests in property, ports and telecoms. The two businessmen are partners in Oriental Plaza, a $1.5bn property development in Beijing.

The Orient chief is not alone among the contenders for top office in having business ties. Mr Peter Woo, who declared his candidacy earlier this month, is the son-in-law of the late Sir Y.K. Pao, and former chairman of Wharf and Wheelock, two of Hong Kong's biggest business groups.

Such commercial connections, and the prospect of boardroom rivalry, however, have prompted concerns that the line between business and politics will be blurred in post-1997 Hong Kong.

Mr Tung's supporters point out that an understanding of business is vital to govern Hong Kong effectively. They say Mr Tung has committed himself to a break with his business interests and that the family's controlling stake in Orient Overseas is already held in a trust. Company executives suggest Mr C.C.Tung, a veteran of the company, would slip easily into the shoes of his elder brother.

That points to a smooth passage for Orient Overseas. But for Mr Tung the going may be rougher. Should he be selected by the Beijing-backed committee that will decide who gets the job, he will head a territory rather than a country. And that will prove much tougher than a company – even one wrested from the brink of bankruptcy.

John Ridding

Beijing warns HK against interference on mainland

By John Ridding in Hong Kong

China yesterday warned Hong Kong against interference in its national internal affairs, but sought to ease concerns about its tough stance towards freedom of expression in the territory after it resumes sovereignty in July next year.

"Hong Kong should not interfere in mainland China's affairs by organising political activities to attack the mainland's internal affairs," Mr Shen Guofang, foreign ministry spokesman, said.

Mr Shen's comments follow a controversy prompted by Mr Qian Qichen, China's foreign minister, who suggested this week that Hong Kong would no longer be able to mark the anniversary of Beijing's suppression of the Tiananmen pro-democracy demonstrations in 1989.

The minister's remarks, which prompted an outcry in Hong Kong, marked a departure from recent reassuring statements from Beijing.

These include an offer of contacts with the Democratic Party, the largest group in the territory's legislature, and a series of agreements with Britain on handover arrangements.

Mr Shen dismissed claims of a shift in Beijing's stance and said Hong Kong residents would have freedom of speech and expression, as long as they remained within the boundaries of the law. "There will be no changes to our one nation, two systems policy," he said. "Hong Kong people will rule Hong Kong. Well water does not intrude into river water."

But concerns remained in Hong Kong. "Today's statement has not provided the reassurance Hong Kong people were seeking," a government spokesman declared. Mr Qian's remarks would be taken up with the Chinese government at a high level.

"This is alarming," said Dr Yeung Sum, vice-chairman of the Democratic Party. "They seem to have forgotten about one country, two systems."

The exchange underlined Beijing's concern that Hong Kong will provide a source of political opposition and its view that the territory should be an economic rather than a political centre.

"After July 1997, I am sure Hong Kong will become an international financial, economic and trade centre," Mr Shen said this week. "It will not become a centre for other things."

Mondex cash card launched in HK

By Christopher Brown-Humes

Mondex, the electronic cash initiative originating in the UK, was launched in Hong Kong yesterday as part of a drive into Asian markets.

Promoters are the HongkongBank and Hang Seng Bank, both subsidiaries of Hongkong and Shanghai Banking Corp. The Midland Bank, which backs Mondex in the UK alongside the National Westminster Bank, is also part of HSBC.

Mondex is a computer chip based card suitable for small transactions, whether they are high street purchases or money exchanges between individuals.

It can be loaded using ATMs and specially equipped telephones.

It is battling it out with a number of payment card operators – Visa, MasterCard and Europay – to establish the predominant electronic cash standard globally.

The launch is initially restricted to two shopping malls on Hong Kong Island and one in the New Territories. More than 400 retailers have signed up to accept Mondex for payments.

Mondex said it was the first re-loadable electronic cash card available in Hong Kong, adding that it would be introduced across the territory next year.

Thais bewildered by the same old choice

Coalition is campaigning on pledge to resign

By Ted Bardacke in Bangkok

With campaigning for Thailand's fourth general election in five years getting under way this week, voters are once again bewildered. They are being presented with the same fascinating array of scandal-tainted political parties as in years past, but this time the confusion comes from a different, potentially historic, source.

Voters have a clear choice of candidates for the premiership on November 17. After a furious round of party-hopping in which almost half the country's sitting MPs switched parties, only two parties have a realistic chance of winning enough seats in parliament to earn the right to form the inevitable coalition government.

The New Aspiration party (NAP), led by Gen Chavalit Yongchaiyudh, defence minister, is fighting against its former ally, the Democrat party, headed by former premier Mr Chuan Leekpai.

Both the parties and the men have different styles and policies: the cautious Mr Chuan speaks to the aspirations of Bangkok's middle class while Gen Chavalit represents an alliance of provincial politicians and retired military officers. It is the sort of choice that has been lacking in Thai politics.

Whether the voters realise they have this choice, then act on it, is another matter. Thailand's economic slowdown and the allegations of corruption and mismanagement that brought down the government of Prime Minister Banharn Silpa-archa, in which Gen Chavalit was deputy prime minister, have made people want change.

Banharn Silpa-archa

But local concerns and money will once again make things messy. The Thai Farmers Bank Research Centre expects politicians to spend $800m on vote-buying and other election activities this year.

"It's up to the people to learn the lesson from the experience of the past government," says Mr Chuan. "That kind of government cannot be in place again if people recognise what they are voting for...that there is a relationship between the person and party they vote for and the kind of government they get."

The lesson is made harder by the fact that in most cases, the NAP and the Democrats will not face each other directly, relying on smaller allies to chip away at each other's regional strongholds. Enlargement of the main parties has not yet meant they have an effective nationwide presence.

While many see party consolidation as healthy, it has caused some high-profile casualties. Mr Thaksin Shinawatra and Mr Amnuay Viravan, the two businessmen-turned-politicians who were the conscience of the Banharn government and often spoke of cleaning up politics, have decided not to stand for election, citing an inability or lack of desire to compete in another arena where money governs.

"Politics is caught up in the same old vicious circle," says Mr Thaksin. "With vote-buying so dominant, I can't pursue my political agenda."

Gen Chavalit may ultimately be a victim too. In the rush to build his party, he has taken just about any sitting MP under his wing, including some of the most scandal-ridden members of Mr Banharn's disintegrating Chart Thai party.

More than half the 300-plus NAP candidates he announced yesterday are running under his party's banner for the first time. In addition to the image problems these MPs bring, their fractional and bickering style is likely to make a Chavalit-led government short-lived even by Thai standards, where no elected prime minister has ever finished a full four-year term.

Some of Gen Chavalit's allies are trying to turn this impending instability into a positive campaign theme by promising new elections, to be held under a new constitution currently being drafted, within 18 months.

Thus Thai voters are being asked to grapple with another puzzle: an ad-hoc coalition campaigning on the pledge to resign.

NEWS: INTERNATIONAL

UN in search of peaceful waters

Bruce Clark on the inauguration of a tribunal to administer Law of the Sea

Mr Boutros Boutros Ghali, the United Nations secretary general, will today get a welcome break from his efforts to trim the world body's bureaucracy and fend off Washington's campaign to remove him from office.

He will attend the inauguration in Hamburg of a new UN institution whose success or failure could be crucial to avoidance of war in the coming decades: an international maritime court which can deliver swift, expert judgments on scores of seabed disputes around the world.

But the tribunal will only be effective if the parties to a complex web of arguments – including at least four explosive rows which have flared recently in the Asia-Pacific region – are prepared to agree in advance to be bound by its judgments.

The 21 judges will have the task of interpreting the UN Convention on tha Law of the Sea (Unclos), an arcane legal document which came into force in 1994 and has been ratified by more than 100 countries.

So far, the convention – which regulates every aspect of ocean management, including fisheries, pollution control, seabed mining and shipping lanes – has appeared to trigger more disputes than it has settled.

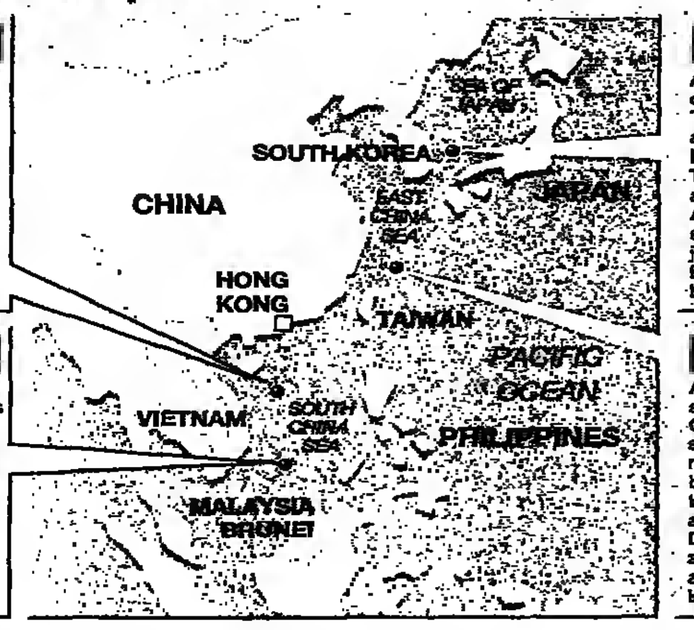
Asia's island trouble spots

Paracel

China has invoked the Law of the Sea to support its possession of the Paracel islands, which it took over in 1974, evicting South Vietnamese troops. In May, China issued a statement claiming territorial waters around the islands. Vietnam and Taiwan also continue to claim the archipelago.

Spratly

This collection of tiny uninhabited islands and reefs is believed to contain huge reserves of oil and gas. They are claimed in whole or in part by China, Taiwan, Vietnam, the Philippines, Malaysia and Brunei. Manila protested strongly last year over the construction by China of concrete platforms on some islands.



Takeshima/Tokdo

Arguments over this collection of rocky outcrops, called Takeshima by the Japanese and Tokdo by the Koreans, have broken out after both Tokyo and Seoul claimed them as part of an economic zone. A South Korean company is engaged in construction projects here. Guarded by the Korean military, the isles may be surrounded by oil and gas.

Diaoyu/Senkaku

A wave of anti-Japanese sentiment has run through China, Taiwan and Hong Kong since July, when Japanese nationalists raised the flag and built a small lighthouse on the largest island in this archipelago, known as the Diaoyu islands to the Chinese and Senkaku to Japan. Taiwan activists landed on one of the islands this month.

Unclos entitles coastal states to proclaim a 200-mile economic zone, or a continental shelf – based on geological formations – which may be much larger.

Inhabited islands are entitled to their own economic zones, and complex issues can arise when an inhabitable island belonging to one country appears to he on the continental shelf of another.

The fact that the ownership of islands provides the key to rich fishing and mineral resources is stoking controversy over some obscure archipelagos in which nohody took much interest until recently.

But there have been loud calls from Asian politicians to settle the outstanding disputes in accordance with Unclos, and the new court – where proceedings will be much quicker than at the International Court of Justice in the Hague – will at least provide a test of their sincerity.

Britain suffered a diplomatic defeat over the wording of the convention when Ireland insisted that tiny, uninhabitable rocks should be excluded from the provision that allows islands to have their own economic zones.

Britain has had disagreements with Ireland and other countries about the waters around Rockall, a tiny Atlantic islet. London has yet to accede to Unclos hnt says it intends to do so.

Perhaps the most explosive maritime dispute in Europe pits Greece against Turkey. The Ankara government has said it will go to war – and it has secured explicit authorisation from parliament to do so – if Greece uses the Law of the Sea to extend its territorial waters from six miles to 12.

Athens has said it has no concrete plans to take this step but it reserves the legal right to do so.

Greek officials allege that recent Turkish moves to question the status of tiny Aegean islands – whose ownership had never aroused much interest in the past – are part of an effort to acquire bargaining chips in the bigger dispute about territorial waters.

Turkey has rejected the Law of the Sea as an instrument for settling disputes in the Aegean, and it has complained that a 12-mile limit for Greece would turn the sea into a "Greek lake".

So far, Ankara has rejected Greece's suggestion that seabed mining rights – and possibly other issues where Turkey claims the existence of a dispute – sbould be referred to legal arbitration. But there is one European country for which the establishment of the Hamburg tribunal is unequivocally welcome.

Its location in a $100m building in a historic German port is a diplomatic coup for the Bonn government, as it presses the case for a permanent seat on the UN Security Council and a louder voice in world affairs.

Contest for Security Council seats hots up

By Michael Littlejohns at the United Nations in New York

United Nations members are due to vote on Monday on filling vacancies in the Security Council, in one of the fiercest contests in several years.

Only one of the five seats that will change occupants on January 1, each for a two-year term, is uncontested. Kenya is Africa's unanimous choice to succeed Botswana, South Africa having decided to continue its low-key approacb to UN politics that otherwise might have made it a formidable contender.

There is no such unity, however, among the Europeans and Asians and the Latin Americans also have failed to agree on a single nominee, with Costa Rica and Bolivia fighting for the seat held by Honduras.

But Portugal, which has been trying to reassert itself internationally, to is a main focus of suspicions of skullduggery in the race for two seats allocated to the Western European and Others group - the "Others" being countries such as Australia, New Zealand and Canada with strong ties to the old world. Australia and Sweden are the other candidates.

Last night, after another hectic day of electioneering by their ambassadors, the race was considered "too close to call". The winners of powerful UN prestige, will replace Germany and Italy in the 15 nation council.

UN members in arrears by the equivalent of two years' dues – less than $220,000 for the smallest states – lose voting rights. Thus, diplomats believe it may be no coincidence that the former Portuguese colony of Sao Tomé and Principe was able to find funds this week to safeguard its ballot. Most believe this will be in Lisbon's favour. Similarly, impoverished Chad also came up, barely in time, with the wherewithal.

Mr Peter Osvald, Sweden's delegate, and Australia's Mr Richard Butler, are apparently resting their respective cases on national merits. Sweden has long been a strong sympathiser with the Third World and Australia gained valuable kudos with its successful initiative to rescue the comprehensive nuclear test ban treaty.

India, whose opposition to this pact created a crisis, is fighting Japan for the seat to be relinquished by Indonesia. A stream of UN delegates spent the summer on all-expenses-paid "goodwill" visits to Tokyo, Hiroshima and Kyoto – for a form of electioneering beyond India's capacity but one that the Japanese have used to their advantage before.

However, the contenders are all aware that in a secret ballot promises of support are not always honoured.

A two thirds majority of members "present and voting" – meaning that abstentions and absentees are not counted – is required for election. While the current battle is the most bitter in recent memory, and allegations of vote-buying are a relatively new phenomenon, one vacancy several years ago was filled only after 50 rounds of balloting over several weeks.

INTERNATIONAL NEWS DIGEST

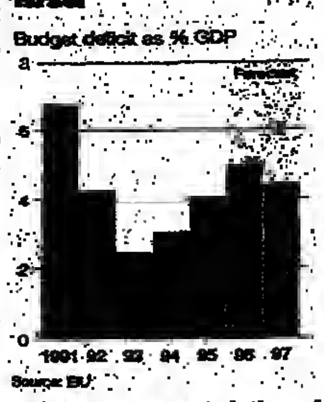
Barzani may turn to Saddam

Mr Massoud Barzani, leader of the Kurdistan Democratic party, threatened yesterday to draw Iraq into the inter-Kurdish fighting. Repeating accusations that Iran has helped the rival Patriotic Union of Kurdistan (PUK) regain more than half the territory lost to the KDP last month, Mr Barzani told a news conference in Salahuddin: "America and the west are not respecting their commitments to protect us against the Iranian invasion. Why not ask for Baghdad's help?"

Iraq sent troops to assist Mr Barzani recapture the Kurdish city of Arbil last month from the PUK. Mr Barzani's troops then moved to take over virtually all of the Kurdish enclave. The PUK offensive to regain lost ground this week has raised concern of renewed Iraqi intervention and led the US to pursue an active search for a ceasefire.

Although Iraqi troops were reported to be moving north from Baghdad, there was no indication they would engage in the fighting. Iraqi dissidents said yesterday Iraqi President Saddam Hussein would be under pressure to intervene if Arbil seemed likely to fall into the hands of the PUK. *Roula Khalaf, London*

Israel market reform boosted



Attempts by Israel's finance ministry to push through long-awaited capital market reforms received a boost yesterday after the Bank of Israel said it would support the entire package but still insisted the government introduce deeper cuts in public spending. Mr Jacob Frenkel, the bank's governor, said the package of reforms drawn up by Mr David Brodet, director general at the finance ministry, represented a big step towards reviving the capital markets, adding that, if only part of the package was accepted, the reforms would be half-baked.

The central bank withheld its full support earlier this week, saying the ministry's planned tax on short-term savings would not lead investors back to long-term savings but would fuel inflation. *Judy Dempsey, Jerusalem*

Mideast private capital need

Private capital will have to come to the aid of the public sector to upgrade poor infrastructure in the Middle East and North Africa if forecasts of rapid growth are to materialise. These are the conclusions of a conference in Istanbul that ended yesterday. Participants on private/public partnerships in infrastructure estimate that to achieve high growth annual investment of $16bn over the next 10-15 years will be required.

The conference, co-sponsored by the European Commission and the World Bank, was attended by regional ministers and international fund managers who agreed that a minimum of $3bn in private capital a year as well as increased competition for providing infrastructure was vital for the region's economies. *Alexandra Capelle, London*

Friday, October 18

at 11:00 pm (French time)

New numbering plan in France

How to call numbers in France from another country.

On October 18, 1996 at 11:00 pm French time (9:00 pm UTC), France will switch to a new telephone numbering plan.

These changes anticipate for the ever increasing volume of telecommunications traffic in France (new services, fax, mobile phones, etc.). This new plan provides a reserve of numbers for several decades to come and marks a further step towards harmonization with European directives and international recommendations.

This New Numbering Plan applies to all numbers you call in France. To call a number in France from another country, simply dial the country code 33, followed by a 9-digit number.

Remember...!

Don't forget to update your personal directories. If necessary, plan for the updates of all French numbers (including speed dialing) stored in your equipment: telephones, fax machines, modems, etc.

9 digits to call all numbers.

To call Paris and the Paris region.

There are no changes. You will continue to dial the 9-digit number which begins with 1.

For example: + 33 1 . . . .

To call the "provinces" (other regions).

Depending on the location, dial 2, 3, 4 or 5 in front of the current number, which remains the same.

The digits to be added are shown on the area code map and in the area code table.

For example: + 33 20 . . . . . .   becomes + 33 3 20 . . . . . .

Add:	To the current number beginning with:	Add:	To the current number beginning with:	Add:	To the current number beginning with:
3	20	2	48	4	76
3	21	5	49	4	77
3	22	4	50	4	78
3	23	2	51	4	79
3	24	5	53	3	80
3	25	2	54	3	81
3	26	5	55	3	82
3	27	5	56	3	83
3	28	5	57	3	84
3	29	5	58	3	85
2	31	5	59	3	86
2	32	3	60	3	87
2	33	5	61	3	88
5	34	5	62	3	89
2	35	5	63	4	90
2	37	5	65	4	91
2	38	4	66	4	92
2	39	4	67	4	93
2	40	4	68	4	94
2	41	4	69	4	95
4	42	4	70	2	96
2	43	4	71	2	97
3	44	4	72	2	98
5	45	4	73	2	99
5	46	4	74		
2	47	4	75		

List valid at March 31, 1995

To call mobile numbers and special services.

To call a mobile phone, dial 6 before the current 8-digit number.

To call special services (videotex, audiotex), dial 8 before the existing 8-digit numbers, which remain the same.

Add:	To the current number beginning with:	Add:	To the current number beginning with:
6	01	6	07
6	02	6	08
6	03	6	09
6	06	8	36

To call French overseas "départements" and territories (DOM - TOM).

There are no changes. You dial the 3-digit access code, followed by the 6-digit subscriber number.

For example: + 590 . . . . . . for a number in Guadeloupe.

How to phone when you are in France.

For all calls within France, dial 0 before the 9-digit number. The domestic long distance access code, 16, will no longer be used. To call another country from France, dial 00 (instead of 19).

France Telecom

NEWS: UK

Brussels threatens action over employment law

By Robert Taylor, Employment Editor

The UK government is set on a collision course with the European Commission over its alleged failure to carry out in full a European Court of Justice judgment that requires worker representatives to be consulted by their employers over collective redundancies and business acquisitions.

The commission has protested that the government's consultation regulations that came into force s year ago fail to meet all the legal requirements laid out in EU directives and in a judgment by the European Court.

The UK was first challenged over this issue by the commission in 1991 when Brussels took out infraction proceedings. The resulting European Court judgment – made in June 1994 – upheld the commission's complaint against the UK.

In an unprecedented move the commission is questioning whether the UK has carried out the legal obligations required by the court in its judgment. Serious financial penalties could he inflicted on the UK if it is found that its regulations are found to he in contempt of the court verdict.

Officials in Brussels last night stressed that the matter was serious but the matter was still at an early stage. The commission's main complaints concern two issues. First, Brussels questions whether the UK rules reflect the European Court judgment over procedures for designating employee representatives.

Second, it questions the effectiveness of sanctions under UK law if an employer fails to inform or consult the employees' representatives.

Under the UK regulations that came into force this March employers are required to consult with elected employee representatives ebout collective redundancies and business transfers even where there are no recognised trade unions.

The consultation is required only where 20 or more employees are made redundant at one establishment within e period of 90 days or less.

The UK government has estimated that this would remove any previous legal obligation to consult through representatives in 96 per cent of cases with a saving of £85m ($132.60m) a year to employers. Under the new regulations employers must consult "in good time" with "appropriate representatives" of the employees to be made redundant. These may he employee or trade union representatives but the employer can choose who to consult.

Moreover the representatives may be elected simply for the specific purpose of being consulted in an ad hoc temporary arrangement.

Rover announces 3.5% pay settlement

By Richard Wolffe and Robert Taylor

Rover, the UK carmaker owned by BMW of Germany yesterday announced it has agreed a 3.5 per cent pay deal with trada unions representing most of its shopfloor workers.

The pay deal is the first to be handled hy Mr Walter Hasselkus, Rover's new chief executive and a BMW board member. It represents a significant reduction from the unions' initial demands of a 7 per cent rise to reflect recent improvements in productivity.

The one-year deal includes a £100 ($158) bonus for each Rover worker to be paid next May, in addition to the percentage pay risa which comes into force from the start of next month.

Other parts of the pay package includa improved holidays for long-serving employees, incraases in profitrelated bonuses, and longer leave following family bereavement.

After four days of talks between Rover managers and trada unions leaders representing some 40,000 workers, Rover said the pay deal had been recommended for acceptance hy the union negotiators. Union members will now take part in a ballot over whether to accept or reject the negotiated offer.

Rover said: "This is a fair and reasonahle deal which recognises the contribution made by Rover'a people to the business need of supporting the worldwide growth of the company."

Earlier this week the TGWU general union said it was recommending a two-yaar deal negotieted at Ford's Jeguar suhsidiary that would ensure a pay rise of 4.25 per cent this year for all employees followed by 3.5 per cent or 0.5 per cent in front of the inflation rate next November.

Central bank reaffirms strong line on inflation

By Graham Bowley and Gillian Tett

The Bank of England, the UK central bank, yesterday warned that it was not prepared to give up its fight to keep inflation low. The move will be seen as a warning to the government in the run up to the next election.

Professor Mervyn King, chief economist of the Bank of England, publicly reaffirmed the Bank's commitment to price stability.

He strongly rehuffed recently fashionahle academic theories suggesting low inflation should be sacrificed for economic growth.

The "objections to price stability do not outweigh the advantages of a stable monetary standard," he said at the annual lecture for the Economic and Social Research Council in London. "Price stability is a timeless virtue," he added.

His comments will be seen as a warning to Mr Kenneth Clarke, the chancellor of the exchequer, who economists fear may be allowing the economy to overheat rather than raise interest rates which could be politically unpopular. The Bank of England has already warned that the chancellor should raise rates slightly from their current 5.75 per cent if he is serious about hitting the government's inflation target of 2.5 per cent in two years' time.

The Bank's warning came amid new signs yesterday that tha UK economy is expanding, with both services and manufacturing growing in response to rising domestic demand.

A survey of 8,000 companies by the British Chambers of Commerce showed that domestic manufacturing companies are now reporting the sharpest capacity squeeze this decade thanks to rising consumer spending. This is likely to reawaken concerns over inflation.

Editorial Comment, Page 15

Public spending cuts 'marginal'

Public spending next year will be reduced only marginally from levels earmarked a year ago, in a rebuff to rightwing memhers of the governing Conservetive party pressing for cuts to fund a pre-election tax giveaway.

Discusaion today hy Mr Kenneth Clarke, chancellor of the exchequer, with Treasury ministers and senior officials will make plain that one penny is probably the most that will be cut from the hasic rate of income tax in November's Budget.

Mr Kenneth Clarke's concern about high public borrowing levels – and his conviction that only modest spending reductions are poseihle – meana thet he remains uncertain whether any net tax cuts can he afforded.

"Most ministers do not take him seriously when he says it may not be possible to cut taxes", said a senior cabinet minister. "But he is in deadly earnest".

Mr Clarke repeated his anxiety about the decline in tax revennes and the detrimental effect on borrowing at a cabinet meeting yesterday, held to discuss the economic climate for tha budget.

Prof King: price stability is a timeless virtue

Investors in Scandex funds 'lost $1.6m'

By Clay Harris in London

Investors in foreign exchange trading schemes run by Scandex Capital Management, a Copenhagen-hased company, have lost more than £1m ($1.6m) of the £1.28m they put in, the High Court was told yesterday.

Scandex and Mr Jeremy Bartholomew-White, its managing diractor, were ordered by Mr Justice Chadwick to transfer to Britain by noon today all funds and investments owned hy UK investors. Some are held in accounts in Denmark and Switzerland, according to the company's affidavit.

Such a repatriation order is unusual, according to the Securities and Investments Board, which is aiming not only to stop Scandex from doing investment business in the UK but also to have the company wound up in Britain rather than in Denmark.

The judge also ordered Scandex and Mr Bartholomew-White to give further information ebout the assets held for UK investors after counsel for the SIB said: "Manifestly there has not heen full disclosure." The judge said: "A company which says 'we only accept funds in segregated accounts' might be expected to know where they are."

Mr Philip Heslop, for the SIB, said

the figures disclosed for currency losses, in accounts denominated in sterling, US dollars and Swedish kronor, left a balance of investors' funds equal to about £255,000.

Yet Scandex's disclosures showed funds on hand of only £160,000 to £185,000. Tha loss also did not include any shortfall on equities sold to investors.

Mr Heslop said: "A number of investors have rung up companies and asked about their shares, only to be told 'what shares?' and discovered shares hed not been registerad." Scandax had told one investor tha shares were held in a nominee account in a Swiss hank.

Mr Heslop said Mr Bartholomew-White had "manifestly broken" an undertaking given to the SIB on July 9 not to do any more investment husiness in the UK.

The SIB is saeking an undertaking from Scandex that it will apply to wind itself up and ask for appointment of e provisional liquidator. It cannot take the action itself, because Scandex was never an authorised investment business.

UBS in battle over dividend

Financial Times Reporters

Formar senior executives and managers of Forte, the botels group taken over by Granada in Jannary, are resisting a demand from UBS, Forte's hroker, that they repay profits from share options made from the takeover.

Up to 60 former Forte executives are rafusing to repey a special dividend which UBS says it is owed from selling the executives' options after the takeover. A recently formed Forte action gronp states in a circular that there has been "a cock-up" and that UBS has "clearly made e mistake".

Some of the former Forte executives have told UBS they are unabia to repay the special dividend because they have already spent it, including to pay off house mortgages.

Howaver, UBS yesterday strongly defended its rola in the sale of the exectives' options and payment of the special dividend, which it said was in line with standard trading practices. "We would never have had any reason to doubt that we would be paid," it said. "These are sophisticated people and it was clear in the [takeover] offer documents that they had to repay the special dividend."

UBS also said: "They sold the stock with all rights in a straightforward transaction, and there is no legal doubt that that includes tha rights to the special dividend."

The dispute centres on the 47p special dividend offered hy Granada to all Forte sharaholders, inclnding Forte exectives holding Forte share options. The special dividend was widely seen as an important inducement to help it clinch the £3.9bn takeover of Forte.

After the takeover in January, up to 120 of Forte's senior executives exercised and sold their options through UBS. They were paid the special dividend in May but UBS says they should repay it because the individuals and institutions which bought the Forte shares were entitled to it.

UBS said it has been repaid by a majority of the executives main board and that it is now owed less than £1m.

Gas pipe route 'will hit prices'

By Robert Corzine and Jenny Luesby

TransCo, Britieh Gas's pipeline monopoly, yesterday warned that pipeline fees could rise or fall by 10 per cent depending on where gas from four new fields in the central North Sea comes ashore.

It said a UK government decision on the issua would affect gas prices and influenca the overall cost of energy.

High-pressure pipeline fees could he cut by up to 10 per cent if gas from the Elgin, Franklin, Shearweter and Puffin fields lands on Teesside, north-east England.

But the fees, which make up about 40 per cent of an average consumer's bill, could rise by 10 per cent if the government approves e scheme put forward by Elf Aquitaine and Shell UK, the developers of the fields.

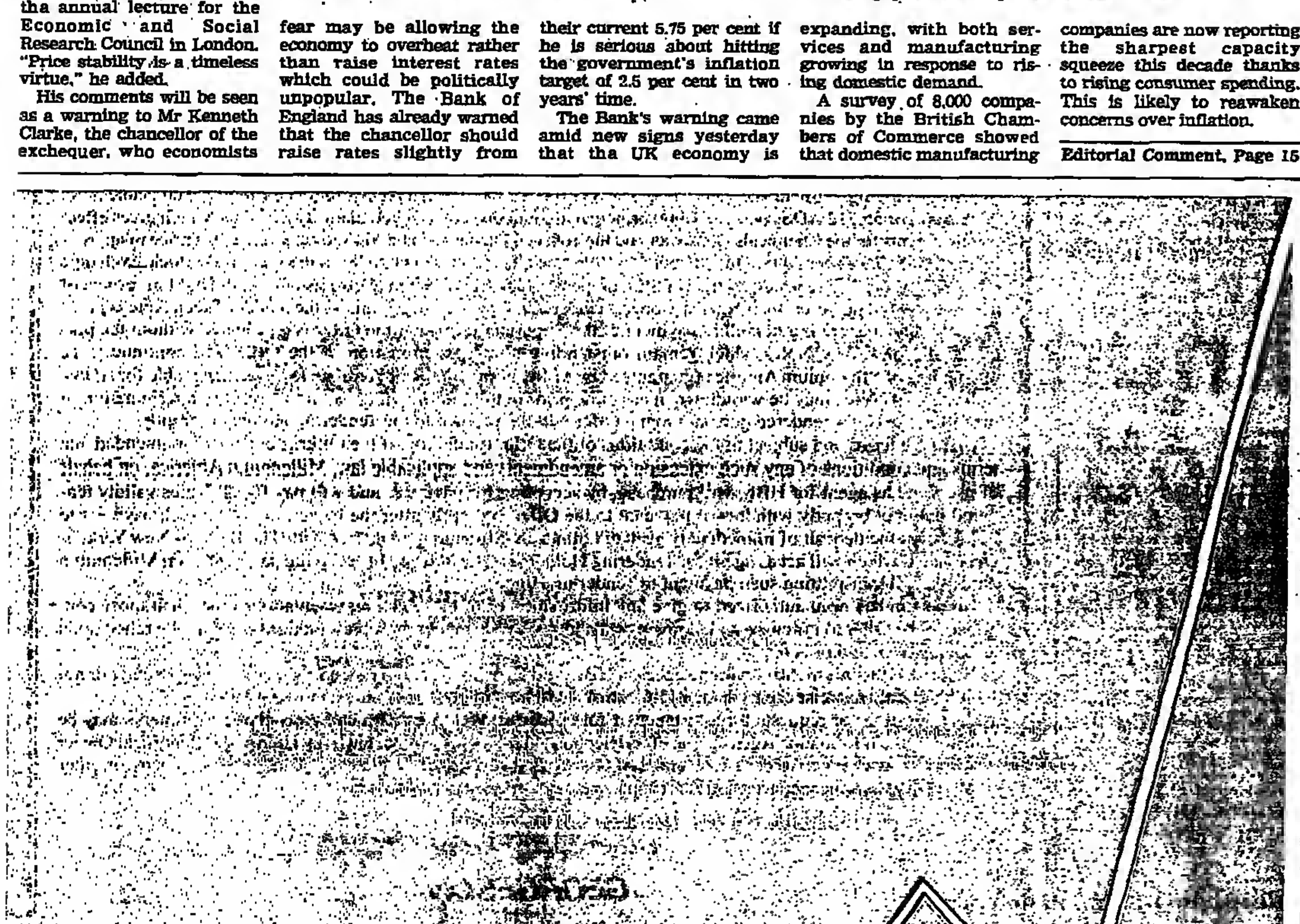
They want to build an undersea line direct to Bacton on the east coast of England, from where the gas would he exported to mainland Europe via the interconnector, a pipeline that is being built to Zeebrugge in Belgium.

A meeting on the issue is due to be held at the Department of Trade and Industry in London today.

Last week chemical producers in Teesside, designated hy the government as the national centre for chemical investment, said that their position would he undermined if the gas came ashore elsewhere.

But TransCo said the developers' option would have serious consequences for its plan to build a "high pressure gas superhighway" along the east coast.

The large amounts of gas from the four fields would underpin investment along the "gas superhighway" from Scotland to Bacton.



NEWS: UK

Curbs following schoolroom massacre 'will devastate business'

Gun industry attacks ban

By Richard Wolffe in Birmingham

The UK gun industry yesterday demanded urgent compensation for what it described as the "devastating" business impact of the government's proposals to curb handguns.

Gunsmiths and retailers said the curbs, following Lord Cullen's report into the massacre at a school in Dunblane, Scotland, will lead to the closure of many craft-based gun manufacturers as well as gun clubs and dealers. More than 15,000 jobs are estimated to be at risk.

Mr Roger Hale, managing director of Parker-Hale, the Birmingham-based importer of Smith & Wesson handguns, said: "We are faced with the likelihood of the destruction of the majority of our handgun business. Our immediate and on-going concern is how we are going to get adequate compensation for the enormous losses we are going to suffer as a result of this legislation."

The government's current compensation plans – estimated to cost more than £20m ($31.20m) – are directed only at the owners of handguns, who will receive payments in line with the second-hand value of their weapons. The Home Office says there are no immediate plans to compensate businesses for their losses resulting from the handgun restrictions.

But Mr Conrad Cross, a council member of the UK's Gun Trade Association, said: "There has to be compensation for the industry because you cannot suddenly destroy a sport and not give something to those who have invested in it. Otherwise companies may try to sue the government for their losses."

Although the government has allowed small .22 calibre handguns to remain legal, many inside the industry believe such shooting is unable to sustain the businesses surrounding handgun sports, including gun clubs and dealers.

The curb on handguns is likely to close down hundreds of small businesses which have maintained a tradition of British gunmaking which stretches back more than 250 years.

Mr Gary Clark, the owner of Progun Services in Birmingham's historic gun quarter, produces and repairs specialist pistols for competition target shooting. "We have been in the trade for four generations but I have been put out of business overnight without compensation. This will bring severe financial problems for me and my family," he said.

"The terrible thing about this ban is that it is not going to make the world a safer place. We have had seven fatal shootings in six weeks within two miles of our local gun club, not one with the club. They were all drugs-related."

Firm is fined for failure in supervision

By George Graham, Banking Correspondent

Pilling & Co, a stockbroking firm based in Manchester, north-west England, is to close its London branch after being fined by the Securities and Futures Authority, the City of London financial markets regulator, for failings in its internal controls.

The SFA expelled from its register Mr Normao Mauroo, a representative at Pilling's London branch, for "reckless trading for clients", and fined Pilling £10,000 ($15,800) for failing to supervise him.

Mr Dennis Morgan, senior partner of the 103-year-old stockbroker, said Mr Mauroo had no connection with Pilling's Manchester head office and "was not allowed anywhere near the firm's established customers". But he confirmed that the case was a factor in the decision to close the London branch on November 1.

The SFA said that over an 18-month period in 1993-94, Mr Mauroo gave unsuitable investment advice to Pilling's private customers.

"His trading on behalf of customers amounted to recklessness," the SFA said.

● The SFA yesterday reprimanded and fined MeesPierson ICS, a futures clearing affiliate of the Dutch investment bank Mees Pierson, and one of its futures traders for unauthorised management of client accounts.

Mr Willem Van der Vorm, an independent local trader whose trades are cleared by MeesPierson, was originally registered with the Association of Futures Brokers and Dealers, whose rules allowed him to manage investments for customers.

After AFBD merged in 1981 with The Securities Association to form the SFA, Mr Van der Vorm continued to manage investments for two customers although under the new group's rules he was only allowed to trade for himself.

MeesPierson was reprimanded, fined £20,000 and ordered to pay costs of £25,660. Mr Van der Vorm was severely reprimanded, was fined £10,000 and required to pay costs of £1,000, but will be allowed to continue trading.

US peace-broker praises Adams

PA News Reporter in Dublin

Mr Bill Flynn, tbe US businessman who chairs the Netional Committee on American Foreign Policy, yesterday criticised the Irish Republican Army for ending its ceasefire but gave Mr Gerry Adams a strong personal endorsement. Mr Adams is president of Sinn Féin, the political wing of the IRA and the committee is a think-tank.

Mr Flynn, a long-standing promoter of US investment in Ireland, said in Duhlin that the IRA bad made a "terrible error" earlier this year in ending its 18-month ceasefire. "We condemn it, deplore it, we reject the thinking that led to it," he said. "The only way forward is through negotiations, and every party in Northern Ireland has got to learn that."

His committee initiated a controverslal meeting in 1994 in New York of leaders of Northern Ireland parties including Mr Adams, after e long ban on his entering the US was lifted. "To see what bas happened since tbat meeting is very, very discouraging," said Mr Flynn.

He stressed his continued faith in Mr Adams. "I have come to know over a period of years Mr Adams and some of his lieutenants," Mr Flynn said. "Mr Adams is e man of peace and e man of honour and is doing, in my view, everything be can to lead tbe republican movement towards a peaceful resolution . . . I eimply trust this man, and others trust him . . . Wlthout him, I see no peaceful resolution. I cannot associate him with the violence. If he were to reject wbat was being done violently, he would no longer be a force of leadership. I beve no doubt be rejects entirely the violence approach."

UK NEWS DIGEST

Jersey to share City mediation

Jersey's financial authority wants the island to become the first offshore centre to sponsor the City Disputes Panel. Jersey is the largest of the Channel Islands between England and France and makes its own tax laws independently of the British parliament.

The panel provides a resolution in the UK to some financial disputes. Since it was founded in 1993 the panel has dealt with some 20 disputes involving £1.5bn ($2.34bn), resolving 18.

Traditional litigation can be both costly and lengthy, and this has prompted Jersey's Finance and Economics Committee to propose that the island sponsor the panel which would enable disputes on the island to be sent to the panel for resolution.

Philip Jeune, Jersey

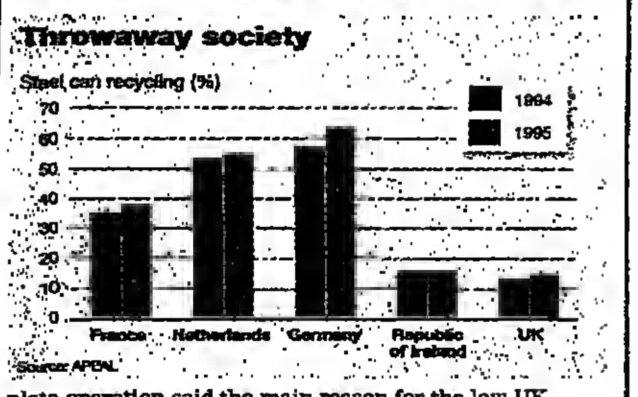
■ STEEL CANS

Germany leads EU recycling rate

The UK lags behind the rest of Europe in recycling steel cans, according to figures released yesterday by the Association of European Producers for Packaging Steel. Across the European Union, the proportion of cans recycled from waste into steel has risen sharply from 18 per cent in 1986 to a forecast 45 per cent this year. Germany leads the way with a rate of 67 per cent, followed by the Netherlands and France. The figure for the UK is just 16 per cent.

Mr John May, marketing manager at British Steel's tinplate operation said the main reason for the low UK recycling rate was that most household waste in Britain was deposited in holes in the ground. In mainland Europe waste was more commonly dumped at treatment centres where steel items were extracted magnetically from other rubbish. However, British companies and municipal authorities, which handle waste disposal, were committed to improving treatment in the UK by cutting down on the need to use increasingly expensive landfill sites and raising the British figure for recycling cans to 50 per cent.

Stefan Wagstyl



■ MACHINE TOOLS

Traub offshoot 'trading normally'

The UK subsidiary of Traub, the heavily indebted German machine tool maker which this week went into temporary administration, said yesterday it was trading normally and saw no problems in meeting orders for new machines and spare parts. The UK subsidiary had revenues of £8.1m ($12.63m) last year and employs 37 people. It has an order book of £3m and is confident of this year turning in pre-tax profits above last year's £238,000.

Peter Marsh

■ FILM INDUSTRY

Production franchises offered

The Arts Council, which allocates state funds to projects, will next week announce details of a plan to establish a number of film production franchises, financed by National Lottery proceeds. Companies will be invited to hid for the right to operate some of the franchises.

Alice Rawsthorn

Rolling contract gathers $4.7m

Judge took sacked executive's age into account in deciding payout

The £3m ($4.7m) compensation awarded to Mr John Clark, the former BET chief executive sacked following the Rentokil takeover, has fuelled the debate over corporate governance.

PIRC, the independent corporate governance consultancy, attacked the size of the award, saying it underlined the need for shareholders to force an end to the practice of companies giving executives three-year rolling contracts.

However, the High Court battle over compensation was not concerned with this issue. It revolved around the detail of the contrect Mr Clark signed with BET wben he joined in 1991 and what entitlements it gave him.

The judge also had to make a decisioo over the vexed question of the employmeot prospects of senior executives who find themselves jobless in their mid-50s.

In ruling on Mr Clark's entitlements under his three-year rolling contract with BET and awarding him some £3m compensation, the judge, Mr Justice Timotby Walker, found in his favour on several points. These included:

● Basic salary. Mr Clark was entitled to three years' salary of £490,000.

● Salary increases. He was entitled to rises of 10 per cent over the three-year period.

● Bonuses. He was entitled to boouses of 50 per cent of basic salary.

● Pension. He was entitled to pension rights of £555,000.

The judge also ruled that Mr Clark was eotitled to compensation for loss of fringe benefits such as medical insurance, holidays and car and chauffeur.

However, the judge ruled against Mr Clark over his claim that be was entitled to £2.1m in share options be had been unable to take out because of his dismissal. The contract allowed options to be granted on a "once and for all" basis, be said.

The judge supported Mr Clark's claim that his age, 55, would prove a prohlem wben be sought a similar position as a chief executive. He accepted evidence from recruitment experts that an execntive of this age would be at a "serious disadvantage" applying for such posts.

It was more likely that Mr Clark would find work as a non-executive director, the judge said. He could expect to find three such posts, paying £20,000 each, over a two-year period.

The judge rejected Rentokil's claim that Mr Clark had not seriously sought work after his dismissal. Mr Clark had taken adequate steps to find a position. His file of application letters was not a "sham" intended only to persuade tha court, the judge said.

Afterwards, Mr Clark's solicitor, Mr Geoff Tyler of Biddle and Co, said the ruling empbasised the importance of an executive having the terms of his contract properly set out.

"It also shows that e company, whether following a takeover bid or otherwise, cannot run roughshod over an executive's contractual rights to receive fair compensetion for the loss of future hoous and other incentives in the event that a company chooses to breach his coofract and wrongfully dismiss him."

John Mason

TECHNOLOGY

Mark Ward on the explosion of PC storage space heralded by holographic technology

Memories are made of this

The human race seems to be getting addicted to computer storage. In June 1948 the University of Manchester switched on the first modern computer. It occupied one large laboratory aod had a random access memory of just 1024 bits.

Now, most PCs are delivered with hundreds of megabytes of hard disk and many businesses bave gigabytes (billion bytes) of data attached to their central computers. On the horizon are video-on-demand systems that will require petabytes (million billion bytes) of storage space.

The trend is creating a demand for smaller places to put larger and larger amounts of information. Holographic storage, a new technology that is close to being commercially available, may finally satisfy the demand.

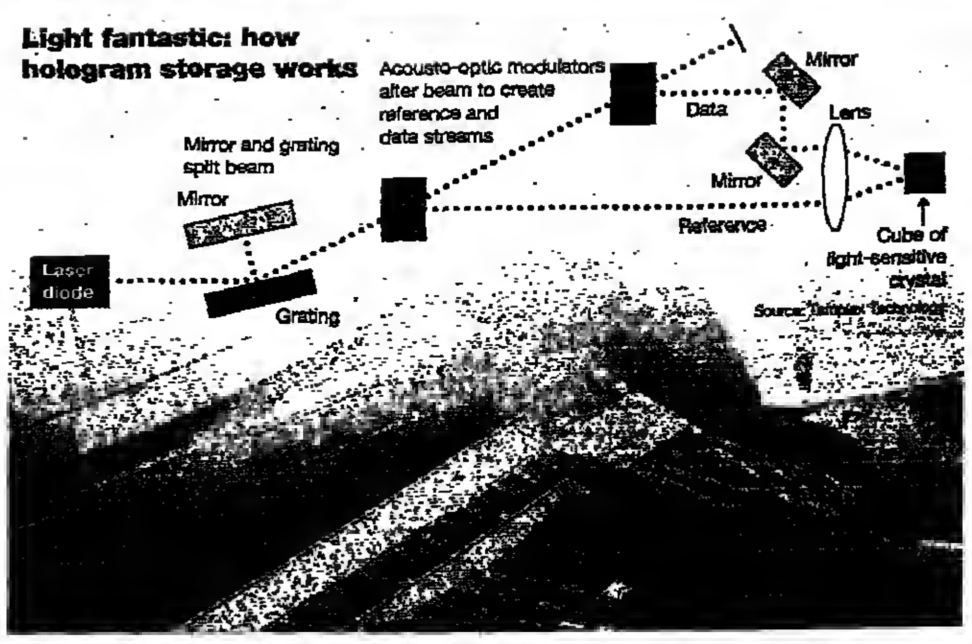
A hologram essentially freezes the light shining off an object, capturing it in a crystal or photographic plate. Catching the light involves splitting a laser beam in two. One beam is directed on to tbe photographic subject. The light is reflected and scattered by tbe features of tbe object before passing to the photographic medium. The second refereoce beam hits the plate unmolested.

The two beams combine on the photographic plate and the dark and light patterns of this mixing are captured. A third laser beam shone on the captured image gets distorted by the interference patterns, revealing tbe image in three dimeosions. All the cavities and surface details are caught in the interference patterns.

The bolographic storage devices being developed by Holoplex, a small US data storage company, work in mnch the same way. One balf of a split laser beam passes through a liquid crystal display screen which represents data as a pattern of light and dark squares. The pattern is picked up by the laser beam and transferred into a cube of light-sensitive crystal wbere it meets the pure reference beam. The crystal's properties can be altered by the interference pattern. As a result the data is imprinted in the crystal.

Data can be read by shining the reference beam at a location in the cube. The beam is refracted, recreating tbe image of the original page which can be projected on to a light-sensitive device reading all the information at once.

Within a couple of years Holoplex bopes to beve ready a holographic storage system that uses crystals the size of a compact disk but with 100 times the capacity and faster access. So far Holoplex has only managed to store 1,000 images in a lithium niobate crystal the size of a sugar cube, which has a data capacity of about one gigabyte. The entire capacity of the cube can be read in just over a secood. In contrast, a compact disk spinning at 200 revolutions per minute can download a mere 150 kilobytes per second. The success witb this early device has secured a deal with Japan's Hamamatsu Photonics to develop a fingerprint recognition system that stores 1000 images as holograms.



'Holographic storage will fit where optical disks were thought to go. Optical technology has shown very little improvement in storage density'

"Holographic storage will fit wbere optical disks were thought to go," says Fred Moore, vice-president of strategic marketing at Colorado-based StorageTek, one of the best-known data storage companies. "Optical technology [such as compact disks] bas shown very little improvement in storage density."

Moore says that although the amount of information tbat can be crammed on magnetic disks and tapes has grown at about 60 per cent per year, optical storage rates have been creeping up at about 6 per cent. Compact and laser disks also have a limit to the amount that can be stored on them. The tiny pits oo a CD can be cut no smaller than the wavelength of visible light.

While the data storage capacity of Holoplex's devices is impressive, Templex Technology, another company developing holographic storage claims it will be able to go further. It says it has already managed to store 6,000 bits at each location in a crystal and will soon be able to store 100,000 bits (eight bits equal one byte).

"In traditional holography you are recording different points in space," says Tbomas Mossberg, chief technology officer of Templex, "but instead of taking a static page we take a seqnence of data in time." The frequency of light is also a measure of time so catching its frequency or colour also records information about time.

Templex catcbes data in crystals made of the lanthanite elements such as Europium and Gadolinium which are uniquely sensitive to different frequencies or colours of ligbt and can therefore trap sequences of light.

He says that recording a time sequence has advantages when it comes to downloading data from the holograph. Although the storage capacity of hard disks and magnetic tapes is increasing all the time, the limiting factor is the mechanical means needed to read the data. A spinning disk or spooling tape has to be moved to the right position so the data can be read, which slows down the whole process. But shining a laser on a Templex holograph releases a stream of data.

Mossberg predicts that when Templex finishes its prototype in 12 months it will be capable of downloading data at rates of one gigabit per second on a single channel. If multiple lasers are used to read data this rate will increase.

Mossberg believes there are few hurdles to the technology becoming widely adopted. The lasers used to read and write data are the same as those used in existing compact disk drives.

The first to adopt the technology may well be the companies wanting to make a business out of showing videos on demand, says Moore. "In a holograpb you could keep your 20 to 30 most popular movies, with the rest all back on tape." Films are notorious eaters of digital storage systems. One minute of broadcast-quality video takes np about 2 gigabytes of storage space.

Despite Mossberg's enthusiasm, StorageTek's Moore is more sceptical saying that commercial versions of these devices are three to four years rather than 12 months away. "But," he adds, "We are closer now than we have ever been."

ADVERTISING

Winning ways: these ads pleased the jury but others disappointed

Eastern promise

The standard of advertising in eastern Europe and the former Soviet Union has a long way to go before it reaches western levels. The proof of this came last week when the region's creative and marketing forces converged on Slovenia's Adriatic resort of Portoroz for the third annual advertising festival of the "New Europe".

Leszek Stafiej, president of the jury judging entries, said of the festival's overall creative tone: "We were sbocked at how good ideas were somehow lost in the process of execution. It was as if agencies didn't know bow to handle an idea – not using the concept in full or stopping halfway, or getting scared; not winding up properly or forgetting about the punch or the wrap-up."

Some 1,000 entries from more than 180 agencies competed for international recognition in three groups – TV, print, and promotional publications and packaging design. The 20 represented countries together comprise 400m consumers. Yet, in spite of the size of the market, standards were so mediocre that the overall agency of the year award went to Slovenia's Futura agency for its work on a wall calendar and a self-promotional film.

Ian Ferguson-Brown, execntive vice-president of Young & Robicam Europe and a juror, said there had been a marked improvement in technical prodnction. "The last four years have been spent getting production valnes right. Now we need to channel that energy into ideas to capture people's hearts."

The most common complaints from those working in advertising at the festival involved client relations, creative issues and clashes with multinational corporations. One frustrated Romanian copywriter said that clients often stymied agencies' creativity with impatience or distrust. Problems in Bncharest are compounded by inexperienced marketing and advertising managers afraid of risks.

A Czech creative director attributed his agency's problems to his multinational clients' use of what he termed third-rate in-house advertising personnel – British and American Prague-based staff primarily interested in building their CVs, who are unsure of their authority and are therefore overly cautious.

There was no overall Golden Drum award at the festival for the print category because of what the jury viewed as a dearth of risk-taking and creativity. Of 500 print and poster entries, just five merited the lesser Drumstick awards. Best print ad in a category for social and charity advertising went to Russie's Segodnya agency for its anti-HIV ad featuring four bare extended arms with one syringe between.

The Czech Republic dominated the TV category. DMB&B Prague picked up a Golden Drum in the pharmaceuticals and over-the-counter category for its TV spot for Pfizer's Kaopectate anti-diarrhoea medication. The ad, in the view of the jury, best demonstrated overall creativity. The commercial features slides from a family's holiday in Italy: a woman complains in a voiceover that most of the slides are of toilets because her husband forgot to pack the Kaopectate. GGK Prague won eight Drumsticks in the drinks category for ads for Starobrno beer.

Whatever the creative deficiencies in the region, last year's real growth in advertising expenditure ranged, by country, from 20 per cent to 40 per cent, compared with 4 per cent in western Europe.

According to Cal Bruins, creative director of Leo Burnett Prague, terrestrial TV is where the main battles are fought: "A lot of these markets don't have many speciality publications, cable or much Internet penetration, so you can't really buy CNN and know that you're going to reach consumers who make a certain amount of money."

Overall, the organisers say that whatever the creative shortcomings, that Portoroz is no longer merely a testing ground for the Cannes advertising festival.

Bruce Dorminey

ARTS

A desperate game of musical chairs

Scotland's arts companies must merge their orchestral schedules to survive, reports Andrew Clark

The crunch has come for Scotland's national arts companies. After years of chronic insecurity, mounting deficits and failed mergers, they have barely eight weeks to integrate their orchestra schedules. If they succeed, they can expect enough extra cash from the Scottish Office to guarantee their long-term stability and independence. If they fail, or the negotiations drag on inconclusively, one or more may face extinction.

The choice has concentrated minds powerfully. Scottish Opera, Scottish Ballet and the Royal Scottish National and Scottish Chamber Orchestras have collectively run up a deficit of £1m. Scottish Opera has been surviving on a hand-to-mouth basis for the past four years, while Scottish Ballet and the RSNO have warned they will go bankrupt if they do not receive higher annual subsidies. Buoyed by a Coopers & Lybrand report exonerating their financial controls, all four say they are suffering from a history of government underfunding. A fifth company, the BBC Scottish Symphony Orchestra, has been told by its paymaster in London that it must become more self-sufficient.

Integrating orchestra schedules may not be an ideal solution, but – according to a working group set up earlier this year by the Scottish Arts Minister, Lord Lindsay – it is the only way to save money and preserve each company's identity. The working group, chaired by a former chief executive of Strathclyde Regional Council, Nail McIntosh, called for Scottish Opera and Scottish Ballet to merge their orchestras, and for the RSNO, SCO and BBCSSO to play for one opera or ballet production per year. It also recommended a 20 per cent increase in subsidy for the national companies, and an additional £6.6m over the next three years to help wipe out their deficits.

Unlike the Scottish Arts Council's much-criticised attempts to deal with the funding crisis, the McIntosh report stands a good chance of being implemented, heralding the biggest structural change in Scotland's performing arts landscape since the late 1970s. "Each company is hanging over a precipice," says McIntosh. "They have to make this work. It's their last chance."

If the five companies are to plan coherently for next season, they must hammer out their combined schedules by Christmas. There are huge hurdles to overcome. At present Scottish Opera and Scottish Ballet both have orchestras of about 50 musicians – the opera on full-time contracts, the ballet comprising a loyal freelance group. Both companies draw on an additional freelance pool of 20. If, as seems likely, a merged orchestra is limited to 70 full-time posts, around 50 musicians would be made redundant.

Scottish Ballet is concerned that it may end up the poor partner. "The experience around the world is that when you have a shared orchestra, the opera comes first," says Scottish Ballet's general manager, David Williams. "We have to make sure what we get is not the opera band reincarnated, but an orchestra that exists in its own right, and serves both equally and fairly."

Even if the two companies can agree on which musicians to employ, there are plenty of obstacles. Who will be responsible for auditioning new players? Who will pay the full orchestra when Scottish Ballet needs only 25 players for small-scale touring productions? How will opera musicians, accustomed to week-long tours with a varied repertory, cope with seven weeks of *Nutcracker* on the road from Aberdeen to Blackpool?

But Scottish Opera and Scottish Ballet are too hard-up to argue against the merger, and the three concert orchestras will be only too glad to pick up extra income from occasional pit duty. If the rota system can be made to work as efficiently as in Amsterdam, where five different orchestras service the Netherlands Opera, there will be artistic dividends.

Artistic product has been the major casualty of underfunding. The McIntosh report bemoans the lack of investment at Scottish Ballet, saying a special lottery grant of £1m over three years is needed to create new works. Scottish Opera's reduction from 10 productions a year to seven helped to *cut costs* but left its orchestra underused – which is why the company's general director, Richard Jarman, originally proposed a merger with the BBCSSO. That plan was resolutely opposed by the musicians, but Jarman says "it softened up the climate to deal with the present. This time last year we thought the whole company would have to go part-time. Artistic planning in these circumstances is impossible."

The RSNO is in equally dire straits. Its endowment reserves are exhausted, its local authority funding has dwindled and its manager, Paul Hughes, is leaving to take a job in London. Hughes, who has spent three years fighting the RSNO's corner, says that "if you can't live within your means, you have to compromise on the artistic side, and there's no point in Scotland having a mediocre symphony orchestra. All these companies are run under conditions that would make a businessman blush."

Previously the most buoyant of Scotland's orchestras, the SCO has also begun to feel the pinch. Public funding covers its costs for half the year, but the rest has to be fought *for* – *and* as a freelance orchestra, the SCO knows it will lose its best players if it is idle.

By contrast, the Glasgow-based BBCSSO has taken on a new lease of life since its abortive merger with the Scottish Opera Orchestra. It may lack the international reputation of the BBC's other regional orchestras, and it is still circumscribed by BBC bureaucracy – with most of its output confined to Radio 3, for example, instead of making its presence felt on Scottish television and radio. But it is giving concerts from Wick to Dumfries, and has won plaudits for its innovative repertoire.

Its short-term future may be secure, but given the commercial pressures on the BBC, there is no guarantee it will survive in its present format. "Senior management have made it clear we have to go out and find a proportion of funding from elsewhere," says Hugh Macdonald, head of music at BBC Scotland. "The options in Scotland are limited, and that's why we support a holistic approach. You can't chop off one arm and hope the rest will survive. The problems facing the *national companies* have to be tackled as a whole."

Theatre

Slick study in noir

On the one hand, *Mojo* – the first play by 27-year-old Jez Butterworth – is as accomplished a first play as I can remember seeing. It was a sell-out hit when new at the Royal Court in Sloane Square last year; and now that the Royal Court has pitched camp in two West End theatres, it is *Mojo* that has opened its new régime in St Martin's Lane at the Duke of York's Theatre.

Mojo – which I was seeing for the first time – is funny, bleak, dangerous, ambiguous. No sooner did I remark, in the interval, that it is half Pinter on speed (early Pinter), half Quentin Tarantino, than I read – on the back of the new published edition of *Mojo* (Nick Hern Books, £8.99) – that, wouldn't you know, the Sunday Times had said in 1995 that it combined "the verbal menace of Harold Pinter and the physical violence of Quentin Tarantino" and that the *Observer* had said "This is Beckett on speed, savagely funny". In these pages, Ian Shuttleworth wrote "When *Mojo* is good it is very, very good and when it is bad (which is seldom) it is never less than competent." Absolutely. So – apart from the fact that it *is nothing like* the existential ironies of Beckett – we are all agreed.

On the other hand, *Mojo*, for all its brilliance, is a mere exercise in style. This is a strange thing to say, for *Mojo* is part-thriller, ending with one corpse on the floor and gradually disclosing a surprisingly, disturbingly, homoerotic power-play between 1950s Soho club folk. And yet I found myself resisting *Mojo* from its first minute. It *feels* as if Butterworth's object in writing it was to receive reviews like "as accomplished a play as I can remember seeing"; *it feels as* if it deliberately intended to combine Pinter's verbal menace and Tarantino's comic horror; it *feels* like a study in *noir*. It feels slick.

Impressive: Paul Reynolds as Baby in Jez Butterworth's 'Mojo' Alastair Muir

There is nothing wrong with imitating Pinter or Tarantino. But the effects of *Mojo* are manipulative. This is most apparent with the rapid ping-pong stichomythia between Sweet and Potts – virtuosically written rallies of part-nonsense for these two alarming, weak, silly, pushy bullies. Their note of rising hysteria (especially in Sweets) between all the busy bluster feels all too calculated. But even the play's homoerotic atmosphere – which gradually daubs all six characters (all male); which suggests crushes, liaisons, abuses, catamites; and which is Butterworth's most original feat – feels also like a modish ploy.

Ian Rickson directs, as he did in 1995. Possibly the excessive stylishness of *Mojo* is emphasised by the new cast. Certainly everything is highly accomplished; Neil Stuke's Potts and Paul Reynolds's Baby are especially impressive. It is fair to observe that Butterworth already knows more about playwriting than most playwrights ever learn. Anyone who sees *Mojo* should look forward with impatience not only to his next play but to the one after that, too. And yet I cannot help hoping that they will be more ambiguous, less brilliant.

Alastair Macaulay

At the Duke of York's to November 9.

London concerts/**David Murray**

North by north-east

The distinguished Finnish baritone Jorma Hynninen returned to the Wigmore Hall on Tuesday, singing an all-Sibelius programme. He drew an all-but-full house, of which a large part was Scandinavian. His only operatic appearances in London have been in Finnish operas, Sallinen's *The Red Line* at Sadler's Wells and *The King Goes Forth to France* at Covent Garden; since neither the Royal Opera nor the ENO has engaged him for other work – unlike La Scala, the Met, Vienna and the Bolshoi – he is not a household name here.

Yet Hynninen is a rare and treasurable artist. The sound is quite individual: timbre like burnished copper, taut and intense at the top of his register, dense with cultivated emotion in the middle, capable of forceful, exact projection when required. He weighs and sharpens his words to a communicative nicety; and his rhythm is notably strong and compelling, especially in a language like Swedish (all but two of his Sibelius songs here had Swedish texts) where the prosody has a vital beat.

Hearing him is always rewarding, and in this programme – much of it unfamiliar in these latitudes – enlightening too. One was startled at how adventurous and "modern" even early Sibelius could be, as in the seven op. 13 songs from the early 1890s with which Hynninen began, or in the decadent nightmare of "Teodors". But there were several familiar favourites, too, all delivered with scrupulous feeling. His accompanist Ilkka Paananen was a close, faithful partner, if sometimes over-hefty for the size of the hall.

★

The next night we had the Guarneri Trio Prague (named after their cellist's cello, apparently), opening their survey of all Beethoven's piano trios. There is more unfamiliar Beethoven for this medium than you might suppose: it was delightful to discover, for example, the gracious single movement in B-flat that he wrote for a 10-year-old pianist, the daughter of friends, in 1812 – his last completed work for piano trio.

The Guarneri players are upright, old-fashioned music-makers, such as only the former Czechoslovakia and East Germany seem to produce. No intrusive personalities, no special effects; just temperate balance and sweet clarity. A western trio might have been more rambunctious in op. 1 no. 1; the Guarneri played it for exactly what it is worth, leaving us to detect the signs of a bigger composer waiting to burst out.

In the "Ghost" trio, op. 70 no. 1, they allowed themselves more overt drama, though always measured and objective. Their sobriety was bracing. From them, the strangest passages in the Largo sounded classically strange, not just elements in a Romantic effusion. These admirable players can be heard in the rest of their survey tonight and on Wednesday next.

Prudential winners announced

Five arts companies were each £50,000 richer last night after the announcement of the Prudential Award for the Arts, the most generous arts prize in the UK.

The winners were: for dance, the Siobhan Davies Dance Company; for music, Society for the Promotion of New Music; for opera, Welsh National Opera; for theatre, joint winners LIFT and Nottingham Playhouse; for the visual arts, Bookworks. As well as the money, which must be spent on commissioning a new work, the winners received an art work from the late Helen Chadwick.

This is the first time the Prudential Award has been shared equally between the five category winners. In the past one company walked away with £100,000. The two runners up in each category get £5,000 each, making £300,000 all told in new sponsorship money for new arts.

Obituary

Berthold Goldschmidt

For Berthold Goldschmidt, the German-born, British-naturalised composer who has died at the age of 93, the best came last. In the final 10 years of a life which included more than its fair share of struggle, Goldschmidt received the international recognition – and the euphoric acclaim of his native country – that had eluded him for so long.

Goldschmidt was a survivor. Many members of his family – not to mention other Jewish musicians – died in Nazi concentration camps. Had he not found common ground with his Gestapo interrogator in 1935 by discussing Schumann and Schubert, Goldschmidt might have suffered the same fate. He took his interrogator's whispered advice to get out of Germany as soon as possible, and arrived in London in search of a home and a job.

His first opera, *Der gewaltige Hahnrei*, (Mannheim 1932), had confirmed him as a composer of promise – but that cut little ice in Britain, where he had to eke out a living as a private teacher until he joined the German section of the BBC in 1944. Although he became a British citizen in 1947, his German background – and the approachable, contrapuntal style of his music, out of step with the postwar avant-garde – dogged his career in his adopted country.

His second opera, *Beatrice Cenci* (1951), went unperformed, despite being one of the prizewinning works in the Arts Council's Festival of Britain competition. His three concertos (1953-5) met a wall of indifference, prompting Goldschmidt to retreat into 25 years of creative silence. His will to compose was also diminished by his wife's long illness and death in 1979.

In the 1980s, however, the musical world began to re-examine Germany's "lost" interwar era. At the 1987 Berlin festival, Simon Rattle conducted the German première of Goldschmidt's *Ciaconna Sinfonica*. A year later, *Beatrice Cenci* received a concert performance in London. Goldschmidt started composing again, and his music was featured on Decca's *Entartete Musik* label.

The Goldschmidt revival reached its climax at the 1994 Berlin festival, with performances of both operas, all three concertos and other works – at each of which the nonagenarian composer was regaled with full houses and standing ovations. Interest in his music developed elsewhere, and Goldschmidt – philosophical and *mentally alert* to the end – travelled extensively to hear it.

Although his music enjoyed limited success in Britain, he made a substantial contribution as a conductor, a task for which he had trained as a repetiteur in Berlin (he played celesta in the première of *Wozzek* in 1926) and junior Kapellmeister in Darmstadt. He also played a significant role in the growing British appreciation of Mahler, giving pioneering performances of the Third and Sixth Symphonies, and conducting the premiere of Deryck Cooke's edition of the Tenth at the 1964 Proms.

A.C.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Koninklijk Filharmonisch Orkest van Vlaanderen: with conductor Grant Llwellyn and pianist Frank Braley perform works by Bizet and Rachmaninov; 11am; Oct 20

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Ensemble Currende: with conductor Erik van Nevel perform work by de Wert, Monteverdi and Carissimi; 7.30pm; Oct 20

OPERA
Staatsoper Unter den Linden Tel: 49-30-20354438
● Semele: by Handel. Conducted by René Jacobs and performed by the Akademie für Alte Musik; 7pm; Oct 19

■ CHARTRES

EXHIBITION
Musée des Beaux-Arts Tel: 33-37 36 41 39
● Chefs d'Oeuvre de la Peinture Italienne: part of a joint project of the Musée des Beaux-Arts in Blois, Chartres, Orléans and Tours, this exhibition shows works by 18th century Italian painters from the collections of the four museums. At the same time exhibitions are held at the other museums, *focusing on* Italian painting in the 14th and 15th century (Tours), the 16th century (Blois) and the 17th century (Orléans); from Oct 20 to Jan 13

■ CHICAGO

EXHIBITION
Art Institute of Chicago Tel: 1-312-4433600
● Building for Air Travel: Architecture and Design for Commercial Aviation: the exhibition, presented in an installation devised by Chicago-based architect Helmut Jahn, features original drawings, architectural models and cut-away models of aircraft interiors; from Oct 19 to Jan 5

OPERA
Civic Opera House & Civic Theatre Tel: 1-312-332-2244
● Il Trittico: by Puccini. Conducted by Bruno Bartoletti and performed by the Lyric Opera of Chicago. Soloists include Catherine Malfitano and Rolando Panerai; 2pm & 7.30pm; Oct 20

■ DUISBURG

OPERA
Theater der Stadt Duisburg Tel: 49-203-30090
● Rigoletto: by Verdi. Conducted by Ira Levin, performed by the Deutsche Oper am Rhein. Soloists include Mikal Dean and Ingrid Kertesi; 7.30pm; Oct 21

■ FRANKFURT

CONCERT
Alte Oper Tel: 49-69-1340400
● Kurt Streit: recital by the tenor, accompanied by pianist Irwin Gaga. The programme includes works by Schubert, Brahms and Roussel; 8pm; Oct 21

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig Tel: 49-341-12700
● MDR Sinfonieorchester: with conductor Marcello Viotti, sopranos Anne-Marie Rodde and Michèle Lagrange, alto Nathalie Stutzmann, tenor Jean-Luc Viala, baritone Philippe Rouillon, bass *Christophe Fel and the MDR* Chor perform works by Poulenc and Martin; 8pm; Oct 22

■ LONDON

CONCERT
St John's, Smith Square Tel: 44-171-2221081
● London Oriana Choir and the Artesian Ensemble: with conductor David Drummond, soprano Joanne Lunn, mezzo-soprano Louise Mott, tenor Simon Spencer-Williams and bass James Rutherford perform works by Pergolesi, Gardner and Mozart; 7.30pm; Oct 19

DANCE
Peacock Theatre Tel: 44-171-314-8800
● Perfumes de Tango: this show choreographed by Miguel Angel Zotto and Milena Plebs and performed by the tango company Tango por Dos opens the newly refurbished Peacock Theatre (formerly the Royalty Theatre), Sadler's Wells' temporary home; 8pm, Sat, Wed 30 Oct also 3pm; to Nov 2

THEATRE
The Pit Tel: 44-171-6388891
● In the Company of Men: by Bond. Directed by Edward Bond, performed by the Royal Shakespeare Company. The cast includes Georga Anton and Richard Cordery; 7pm; Oct 19 (also 1.30pm), 21

■ LOS ANGELES

CONCERT
Dorothy Chandler Pavilion Tel: 1-213-972-8001
● Los Angeles Philharmonic: with conductor Esa-Pekka Salonen perform works by Bernstein, Williams, Herrmann and Stravinsky; 7pm; Oct 21

■ MADRID

CONCERT
Fundación Juan March Tel: 34-1-4354240
● Mariana Gurkova: the pianist performs works by Chopin and Brahms; 12noon; Oct 19

■ NEW YORK

CONCERT
Carnegie Hall Tel: 1-212-247-7800
● Empire Brass: with trumpeters Rolf Smedig and Mark Inouye, French horn-player Luiz Garcia, trombonist Darren Acosta, tuba-player Kenneth Amis and drummer Kurt Wortman perform works by Susato, Byrd, Weck and Tchaikovksy; 8pm; Oct 19

■ PARIS

CONCERT
Festival d'Ile de France Tel: 33-1 44 94 28 88
● Salzburg Chamber Soloists: with conductor/violinist Lavard Skou Larsen perform works by J. Strauss and Stravinsky. Performance at the Théâtre du Garde-Chasse, as part of the Festival d'Ile de France; 9pm; Oct 19
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● The 3 Counter-Tenors: Pascal Bertin, Andreas Scholl and Dominique Visse and pianist François Couturier perform works by Offenbach, Massenet, Purcell and Donizetti; 11am; Oct 20

■ STRASBOURG

EXHIBITION
Musée Art Moderne Ancienne Douane Tel: 33-88 32 48 95
● Eugène Carrière (1849-1906): retrospective exhibition devoted to the French painter Eugène Carrière, who is known for his romantic portraits and pictures of motherhood. The exhibition brings together more than 70 paintings, 30 drawings and 10 prints from international public and private collections, giving an overview of Carrière's entire career; from Oct 19 to Feb 9

■ STUTTGART

EXHIBITION
Staatsgaleria Stuttgart Tel: 49-711-2124050
● Das Verlorene Paradies: the exhibition focuses on the work of the German painter Johann Heinrich Füssli and the influence of John Milton's book "Paradise Lost", which was a main source of inspiration for Füssli throughout his career; from Oct 19 to Jan 19

■ TEL AVIV

EXHIBITION
Tel Aviv Museum of Art Tel: 972-3-6957361
● Virtual Reality: an exhibition of contemporary Israeli art in which the domestic and the realistic – two realms legitimised anew by postmodemiem – are combined; from Oct 18 to Jan 16

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Dawn Upshaw and Robyn Schulkowsky: the soprano and the drummer perform works by Saariaho, Neuwirth and Cage. Part of the Wien Modern festival; 7.30pm; Oct 20

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17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Philip Stephens

One man's vanity

Sir James Goldsmith's Referendum party is a harmless indulgence doomed to failure within six months

We must not get cross with Sir James Goldsmith. The rational reaction to his foray into British politics is one of indulgence. Like many billionaires, Sir James is bored with being wealthy. He craves the limelight. He is a man with a mission. British democracy should have no fear of such characters. He can do it no harm.

I should own up here. When Sir James first appeared oo the scene with his Referendum party, I took a different view. For a while I shared the starchy Establishment indignation at the idea that politics was becoming a billionaires' playground. The British are amateurs in these matters.

I also thought it a bit rich that someone whose principal residence was a Mexican hacienda should take it upon himself to save Britain from Brussels. I recall saying Sir James was a nationalist in frantic search of a nation. That was unkind.

I made two mistakes. First, I considered that anyone who had made as much money as Sir James must be a character of the coldest calculation. As we have seen more of him these past few months it has become obvious that here instead is a man of unbridled emotion, an incurable romantic. He knows that even if he were to double the £20m he plans to spend on his party's general electioo campaign he would still be humiliated. But he doesn't care. It is the cause that counts.

He is a man of causes. Lost ones. There are those who remember his reaction when Harold Wilson scraped back to power as prime minister in the inconclusive February 1974 election. Sir James seemed convinced that Labour's return to government was a prelude to a communist takeover. He said so to Sir Edward Heath, the leader of the Conservative opposition. And he had a solution.

If only Sir Edward would combine his determination to make Britain's future in Europe (then a wholly laudable capitalists' club) with a pledge to change the British voting system, Sir James would bankroll the Conservatives. Labour would be denied a majority in parliament and the communist threat repulsed. Inexplicably, Sir Edward never took up the offer. Still more curiously, Sir James received his knighthood two years later in the somewhat controversial honours list submitted by Wilson on his resignation as prime minister.

Less charitable commentators have also highlighted the prospectus offered in French-language editioo of his best-selling book *The Trap*. In this – the first – edition, published a few years back, he calls for a "strong Europe" with central powers over diplomacy and defence. Trade barriers against the so-called predators of north America and the developing world should be buttressed by a European central bank and a powerful legislative senate.

Sir James is still a protectiooist, but the rest has been excised from the English-language edition of the book. I am nit-picking. We all change our minds – even those conventional politicians colourfully characterised by Sir James as "the most despicable human subspecies I have come across".

> The Referendum party's profile among the chattering classes is in inverse relationship with its impact on the nation's doorsteps

My second mistake, though, was to be influenced by the panic which gripped John Major's party earlier this year. When Tory MPs began taking out their pocket calculators to check their majorities and John Redwood paid homage to Sir James at London's Dorchester Hotel, it seemed something serious was afoot. Perhaps he would deprive the Conservatives of a dozen or so crucial seats in the election and thereby hand the keys of 10 Downing Street to Tony Blair.

But it is clear that the Referendum party is an entirely ephemeral phenomenon. Its profile among tha media and political classes is in inverse relationship with its impact on the nation's doorsteps. Step a mile or two beyond Westminster and the pollsters find it impossible to detect. It will stay that way from now until election day. The Brits will happily take the money (the party's advertising splurges are a boon for the newspaper industry) but will give nothing in return.

Sir James will go down in style, albeit the faded variety. The representatives at his inaugural Brighton conference tomorrow come from the guest list of one of those rather louche Belgravia parties during the heyday of Thatcherism: Sir Alan Walters, Lord MacAlpine, Peter de Savary, John Aspinall, Edward Fox; even Carla Powell, society hostess and spouse of Sir Charles.

The Referendum party's great weakness, though, is that it dare not speak its manifesto. Few who have read the party's advertisements can doubt the aim is withdrawal from the European Union. Anyone who claims, perhaps even believes, that Britain's laws are made by 20 unelected commissioners could hardly want it to stay a member.

If someone had not whispered in my ear a while back that actually it is the Commission's task to propose and that of the Council of Ministers to dispose, I might have been among the first to join the crusade.

Sir James's emotions seem to blind him to such detail. He tells us that each of his pronouncements is rigorously checked for accuracy by his lawyers. I do not know whether these lawyers have ever been to Brussels, but my advice is that Sir James should be careful before he pays their bills.

He will not offer the electorate a straight yes-or-no question on membership of the EU. Instead the voters must decide between four propositions. Britain could stay in the EU as it is. It could return to the position before the Maastricht treaty. It could opt for no more than Europe's free-trade dimension. Or it could indeed leave altogether.

The first three questions, though, are there only to provide camouflage for the fourth. There is no serious possibility that Britain's partners would allow it either to fast-freeze the structures of the EU or to turn back the clock. Sir James, being an intelligent man, knows it.

He must know also his venture is doomed. There may be little appetite for further European integration. In this, Britain is not alone. The mood in other European countries runs behind the ambitions of the political elites. That is why the single currency project is such a risk.

But the British are not romantics. They cannot afford to be. They make hard-nosed calculations about their prosperity. Presented with the real choice they would vote overwhelmingly to stay in. In six months Sir James will be gone, no doubt in search of another cause. So meanwhile let's be nice to him.

LETTERS TO THE EDITOR

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Value measure should be used with caution

From Mr Nick Antill.

Sir, Enormous interest has been generated by the Economic Value Added approach to company management and share price valuation, propounded by Stern Stewart & Co ("How EVA measures up", October 7, and Letters, October 14). There are considerable difficulties in applying it, which suggest that it should be used with some caution.

The EVA methodology is a rearrangement of cash flows, the intention not being to alter the valuation of a company as against that produced by a standard discounted cash flow model but to allocate the creation of value so that it is made visible. Management performance and remuneration can thus be tied back directly to budgeted targets on an annual basis. The appeal of the EVA methodology for the investment community is similar to that to management. It ties performance measurement to valuation. The difficulty is one of accrual.

The list of difficulties is as follows:

- Cyclical industries look as if they are subtracting value half the time and adding it for the other half.
- Projects do not come on full stream the year after the capital is sunk, so value creating companies will often look less attractive than those which are maximising cash generation at the expense of growth.
- The adding back of non-cash items (such as deferred taxation or provisions) ensures the compatibility of the analysis with a discounted cash flow valuation, but it is not altogether true that all such provisions are simply a function of banker-driven, rather than economics-driven accounting. Some reflect real timing differences which will reverse.
- Where assets have been sunk for a long time, the historical cash cost of them will often be very low. While it is true that there has been a large increase in their value, is it fair to say that the company is adding value now, when that apparent addition to value simply reflects the inflation of the 1970s?

Stern Stewart's comparisons of Market Value Added and EVA have been conducted over long runs of years. This will reduce the impact of all the problems listed above, but should be reflected in the use which is made of EVAs both by managers and investors.

Nick Antill,
director, oil and gas research,
BZW,
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Ivory tower solutions

From Mr M.D. Sanderson.

Sir, The views expressed by Peter Robinson ("Barely a pass on training", October 7) are strongly out of line with the experiences of the Engineering and Marine Training Authority.

The growth rate for national vocational qualifications (NVQs) awarded by us over the last four years has averaged more than 30 per cent and continues to grow even faster than that in 1996.

The NVQ initiative, which is employer-led, seeks to ensure that the skills of the UK workforce are directly relevant to the needs of UK industry. As such, they are frequently attacked by some academics who prefer to sit in their ivory towers inventing theoretical rather than practical solutions.

M.D. Sanderson,
chief executive,
Engineering and Marine Training Authority,
Vector House,
41 Clarendon Road,
Watford, Herts, UK

Stability requires UK support for Emu

From Mr Gijs de Vries.

Sir, In recent years, two historic changes have profoundly altered patterns of power in Europe: German unity and the demise of communism. Both Nato and the EU are carefully assessing their role in the new Europe.

Nato unquestionably remains the key to security in Europe. However, with US foreign policy oscillating increasingly between selective isolationism and unilateralism, European countries must be prepared to take on more responsibility for stability on our continent.

Next to Russia and the US, Germany today ranks as Europe's most important country. Germany has a choice: to exercise its power independently or together with the other member states of the EU. Germany has made its choice. Emu represents the most significant exercise in power-sharing Europe has ever seen.

There is a second geopolitical aspect to Emu: to strengthen political cohesion within the EU at a time when the union is being asked to expand gradually to 25 countries or more. It is a necessary counterweight to the centrifugal forces enlargement will generate.

For Emu to work, it is important for the EU to get its fundamentals right. A credible stability pact may well be more important, particularly in the medium term, than the budgetary situation of member states at the end of 1997.

Emu will go ahead, with or without the UK. From a geopolitical point of view, however, British participation is highly desirable. The German offer is historic, and will not be made twice. It is in everyone's interest that the UK should accept it. It is time for the UK to take its place at the heart of Europe.

Gijs de Vries,
president,
European Liberal Democrat and Reform party,
97-113 rue Belliard,
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Belgium

Fall in for yet another electricity review

From Mr Tim Russell.

Sir, When Professor Stephen Littlechild, the electricity regulator, announced in early 1995 his re-review of his pricing review of the regional electricity companies' (Recs) distribution business which had occurred just six months earlier, he tried to justify his decision partly on the basis of sharp upward movements in the Recs' share prices post the original announcement.

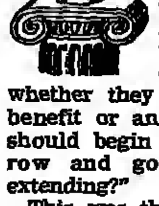
Given the sharp falls in electricity share prices this year and consequent rise in the cost of capital for Recs, is it time for another review?

Tim Russell,
39 Ormiston Grove,
London W12, UK

Europa • Dominique Moïsi

Ten lessons from Bosnia

The international community must learn from its mistakes in the former Yugoslavia



Must we allow these Balkan wars to pass, without at least trying to draw some lessons from them, without knowing whether they have been a benefit or an evil, if they should begin again tomorrow and go on forever extending?"

This was the question at the heart of the report of the first Carnegie International Commission on the Balkans in 1914. Now, 82 years later, a second report, of the International Commission on the Balkans has just come out under the auspices of the Carnegie Endowment for International Peace and the Aspen Institute in Berlin.

In the aftermath of the presidential and parliamentary elections in Bosnia and nearly one year after the Dayton peace agreement, the commission's conclusions are worth pondering. The report – called *Unfinished Peace* – can be summarised in the following "10 commandments".

Number one: if the international community decides to intervene in a crisis, it must do so as quickly as possible.

In the former Yugoslavia, the violence could have been controlled and even stopped at an acceptable cost in 1991-92 before it extended to Bosnia. Later that was no longer possible – and the cost of Unprofor, the UN peacekeeping mission, from 1992 to 1995 was $5bn.

Number two: the cost of intervention is less than that of non-intervention and indifference.

Reconstruction in Bosnia will cost 10 times more than military intervention at the onset of the crisis. The decision to limit international intervention to purely humanitarian aid led to the loss of more than 100 soldiers serving with Unprofor.

To this one must add the political and moral damage inflicted on the European ideal by procrastination when the horrors of civil war and ethnic cleansing were continuing at the centre of the continent.

Number three: there is no worse crime than to make promises and not uphold them.

The fall of Srebrenica, a so-called safe haven, and the ensuing massacres were a terrible symbol of the international community's impotence and irresponsibility.

Number four: diplomatic action, without the credible threat of the use of force, is doomed to fail.

In the former Yugoslavia, the systematic use of air-power against the aggressors would have had a serious impact on their military attacks. As the final outcome of the war has demonstrated, the result obtained at Dayton could have been reached much earlier.

Number five: never trust the military.

Generals in democracies are, as a matter of principle, opposed to any kind of intervention which can only damage their forces. Relying on the "lessons" of the second world war and the myth of Serbian invincibility, the western military exaggerated potential casualties in weighing the pros and cons of intervention.

Memories of the Vietnam debacle still weigh heavily on the US. New thinking is needed to explore the limited use of force in low-intensity conflicts that often involve civil strife in the post-cold war world.

Number six: the United Nations proved itself structurally incapable of putting an end to the conflict.

The UN's impotence reflected the deep divisions of its member states. But the cumbersome nature of UN mechanisms for conflict resolution, its inability either to keep the peace or to make it, was striking.

Individuals can always make a difference. It is an understatement to say that Mr Yasushi Akashi, the UN representative in Bosnia, did not live up to the modest expectations of the international community. He confused impartiality with neutrality towards aggression by Serb, Croat or even Moslem – and that proved particularly tragic in the fall of Srebrenica.

In such a context, the very idea of the "international community" is theoretical. What really matters is the willingness of states to act, their capacity to mobilise resources and take risks.

Number seven: whether one likes it or not, nothing in the world moves without the US.

In the last analysis, Nato emerged from the conflict in the Balkans as the only credible organisation, the one that ultimately made the difference in the field.

This does not imply that national forces operating under UN auspices – especially the British and French – lacked courage. They were, however, hampered by waffling civilian decision-makers. Their mandate was to accompany humanitarian action, and that is no substitute for a policy of using force to stop aggression.

The moving force behind Nato's intervention was the US. The belligerents heard America's voice and took it seriously.

Number eight: the US and Europe must act together, if not in unison.

It is tempting on both sides of the Atlantic to wait for the other side to act first on its responsibilities – even if not criticising or pushing out the other.

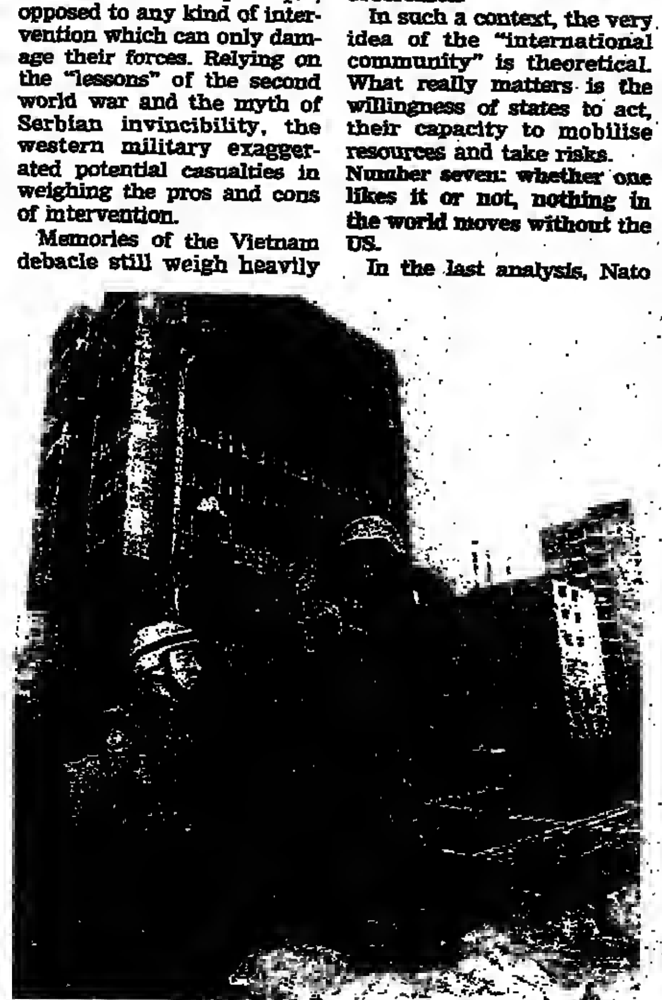
Only when both sides worked together did the events that led to the Dayton accord and the subsequent end to hostilities become possible.

Number nine: the issue of peace does not end with Bosnia.

From Kosovo to Macedonia – not to mention Greece and Turkey – tension remains high. The Dayton peace will last only if the western powers maintain a credible military presence in the region for a significant period to prevent the resumption of fighting, stabilise Bosnia and stop the conflict extending south.

Number ten: the long-term objective of reconciliation is likely to be achieved only after a period of "divorce" for the belligerents.

After a gruelling war, all sides want such a separation – if only to lick their wounds and slowly overcome their mutual hatred. This does not apply only to the Balkans but also to the Middle East. Populations that cannot live together must learn to live side by side, so bridges can be gradually built between them.



The aftermath: UN soldiers amid the destruction in Sarajevo

The author is deputy director of the Paris-based Institut Français des Relations Internationales and editor of Politique Etrangère. He writes here in a personal capacity.

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COMMENT & ANALYSIS

FINANCIAL TIMES
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Friday October 18 1996

The battle for Russia

The western world had followed the latest twists in the battle for influence in the Kremlin with bewilderment and alarm. Far from the transparent, accountable democracy which optimists hoped to see after the collapse of communism, the new round of infighting is reminiscent of Soviet or tsarist power struggles at their most ruthless.

In a way, Russia's foreign friends have only themselves to blame. Because of the overwhelming imperative to keep the communist opposition out of power, western politicians have repeatadly swallowed any doubts they had about the concentration of vast authority in the hands of one individual. They supported President Boris Yeltsin unconditionally during the armed clashes of October 1993; they backed the constitution whose approval he secured in the wake of that triumph; and they did everything to secure his re-election this year.

But the disadvantages of such a concentration of power, and the flaws in the Russian political system, have become painfully obvious since Mr Yeltsin's re-election. There is no properly functioning system to fill the gap left by his illness.

The constitution makes clear that power should pass, in the avent of Mr Yeltsin's death or permanent incapacity, to Mr Victor Chernomyrdin, the prime minister. But no procedure is laid down for determining at what point the head of stata must hand over tha reins. Worse still, there is ambiguity ahout who precisely controls the armed forces. In a situation where the heads of those forces are at loggerheads, that is something more serious than a fina point of constitutional law.

Few people believe thet yesterday's dismissal of Mr Alexander Lebed, the forthright security chief, marks the end of the story. Although ha faces bitter opposition from the interior ministry, Mr Lebed prohahly retains the sympathy of important parts of the regular army.

General Igor Rodionov, the defence minister who has won respect as a serious military reformer, is close to Mr Lebed. Among professional military officers and far beyond, hoth men enjoy the moral authority that comes from willingness to say out loud the unpleasant truths – in particular about tha dreadful condition of tha army – that other public figures prefer to cover up.

Divided security forces in a country whose cohesion is also under threat from other factors – from nationalism in the northern Caucasus to the amhitions of many regional bosses – amount to a highly dangerous state of affairs. There is very little the west can do, apart from offer assurances that whatever the problems, self-inflicted and otherwise, that are now afflicting the Kremlin, it will not take cynical advantage of Russia's resulting weakness.

Wake up Japan

The Japanese public seems bored and bemused by this Sunday's general election. So the rest of the world cannot be blamed for feeling the same. However, both may be wrong.

On the surface, three years of political turmoil, accompanied by painfully slow economic recovery and a series of traumatic disasters, have brought Japanese politics back to square one. The Liberal Democratic party, which ruled unchallenged for nearly 40 years before 1993, is back in power and may even regain its overall majority. Even failing that, it will probably be able to form the next government with more congenial coalition partners than the socialists whom it has had to work with since clawing its way back to office in 1994.

Yet important things have changed. The LDP's defeat in 1993 proved for the first time that Japan is a real democracy, in which no party can take power for granted. Indeed, this weekend's result is by no means a foregone conclusion.

The new electoral system will make a difference, even if many voters have not yet understood it. Under the old system one well-organised party could sweep the board by putting up candidates who appealed to different local or sectoral interests and dividing its supporters evenly among them; and agricultural producers were grossly over-represented at the expense of urban consumers. The new system addresses both those anomalies. It should help smaller parties and those which take on producer lobbies by advocating deregulation and administrative reform.

In other words, it should be good for the LDP's main opponents: the New Frontier party and the newly formed Democratic party. That the NFP is not riding higher in the polls reflects public disappointment at its failure to provide clear leadership when in power in 1993-94, and public distrust of its leader, Mr Ichiro Ozawa, still seen as more of a fixer than a statesman. It is also a tribute to the success of the incumbent prima minister, Mr Ryutaro Hashimoto, in breaking with the complacent traditions of his predecessors and breathing new vigour into the LDP.

Mr Hashimoto, though hardly rabid by European standards, is more overtly nationalistic than previous postwar Japanese leaders. That could lead to tensions as Japan gropes for the right reaction to an increasingly powerful and assertive, yet still resentful and suspicious, China.

A further period in opposition for the LDP, though unlikely, would on the whole be welcome. Failing that, it must at least be hoped that the opposition does well enough to prevent the LDP relapsing into total inertia.

Price stability

"Price stability good" is hardly an exciting headline. But, as Mr Mervyn King, the Bank of England's chief economist, said in yesterday's Economic and Social Research Council lecture, excitement is not what central banking should be about. The failure of UK monetary policy is that it has not been nearly boring enough.

Until the end of the second world war British subjects could expect prices at the end of their lives to be the same as when they were born. Since 1945 the price level has risen more than 20-fold. How could such a complete betrayal of trust have happened? Part of the reason is that economists believed inflation was the price of full employment – an extraordinary idea, resting on the hope that people are invincibly stupid.

In fact, inflation is harmful: high inflation tends to be more variable than low inflation, for example. The resulting uncertainty imposes large risk premia on long-term interest rates, impairs the price mechanism and increases the volatility of output and employment. Still more dangerously, inflation penalises the thrifty and ruins those who trust the state.

It has been essential to make long-run price stability credible. But the effort has not yet been successful, as is demonstrated in the market for British government long-term debt. There remains a sizeable inflation-risk premium which raises the price of achieving the target.

On current trends, the government will fail to deliver on its target for inflation of 2½ per cent or less by the end of this parliament. When Mr Eddie George, governor of the Bank, asked for higher interest rates in May 1995, everyone concluded shortly thereafter that he was wrong. In fact, he was almost certainly right. That virtually nobody wants to say this shows why UK monetary policy remains unconvincing.

Because policymakers are suspected of wanting to play fast and loose at election time, counter-cyclical policy is counter-productive. As Mr King asserts, "It is precisely the absence of a credible commitment to price stability which has meant that, over the past 20 years, any accommodation of an upward shock to inflation has raised inflation expectations and increased the output cost of meeting low inflation in the long run."

The counter-cyclical fine-tuning recommended by so many commentators will work only if long-term price stability is also credible. Otherwise it will raise inflation expectations, thereby either increasing inflation or creating a still larger loss in output. For government to fool people is not just wrong. Ultimately, it will fail as well.

The French connection

France's telephone number change is part of an ambitious plan to create a more competitive telecoms market, says **David Owen**

At 11pm French time, France's telephone numbers are set to change for the second time in 11 years. If all goes smoothly, the instantaneous switchover will be the climax of an impressive technical operation which should ensure the country has enough numbers to go around until about 2050.

It may also turn out to be one of the most important steps so far to prepare for liberalisation of the FFr117bn (£14bn) French telecoms market, dne to take effect – in common with the rest of Europe – on January 1 1998.

Some observers think the soon-to-he-unveiled French reforms may even result in France, not known for being at the forefront of liberalisation in any market, ending np with more effective competition in telecoms than most other large countries.

Mr Bruno Lasserre, the telecoms regulator, sees the new 10-digit system as the first step in opening up the market for long-distance calls when France Télécom, the world's fourth biggest telecoms operator, loses its monopoly in 1998. He plans to use the new system to allow users to choose between operators on a call-hy-call basis, so tbey can take advantage of the lowest prices without dialling extra numbers.

Mr Lasserre, France's telecoms regulator for more than seven years, is one of the leading candidates for chairmanship of the new independent regulatory authority due to start operations next year. The system devised under his guidance allows the consumer's choice of long-distance operator to be determined by the first digit in the new numbers to be introduced today.

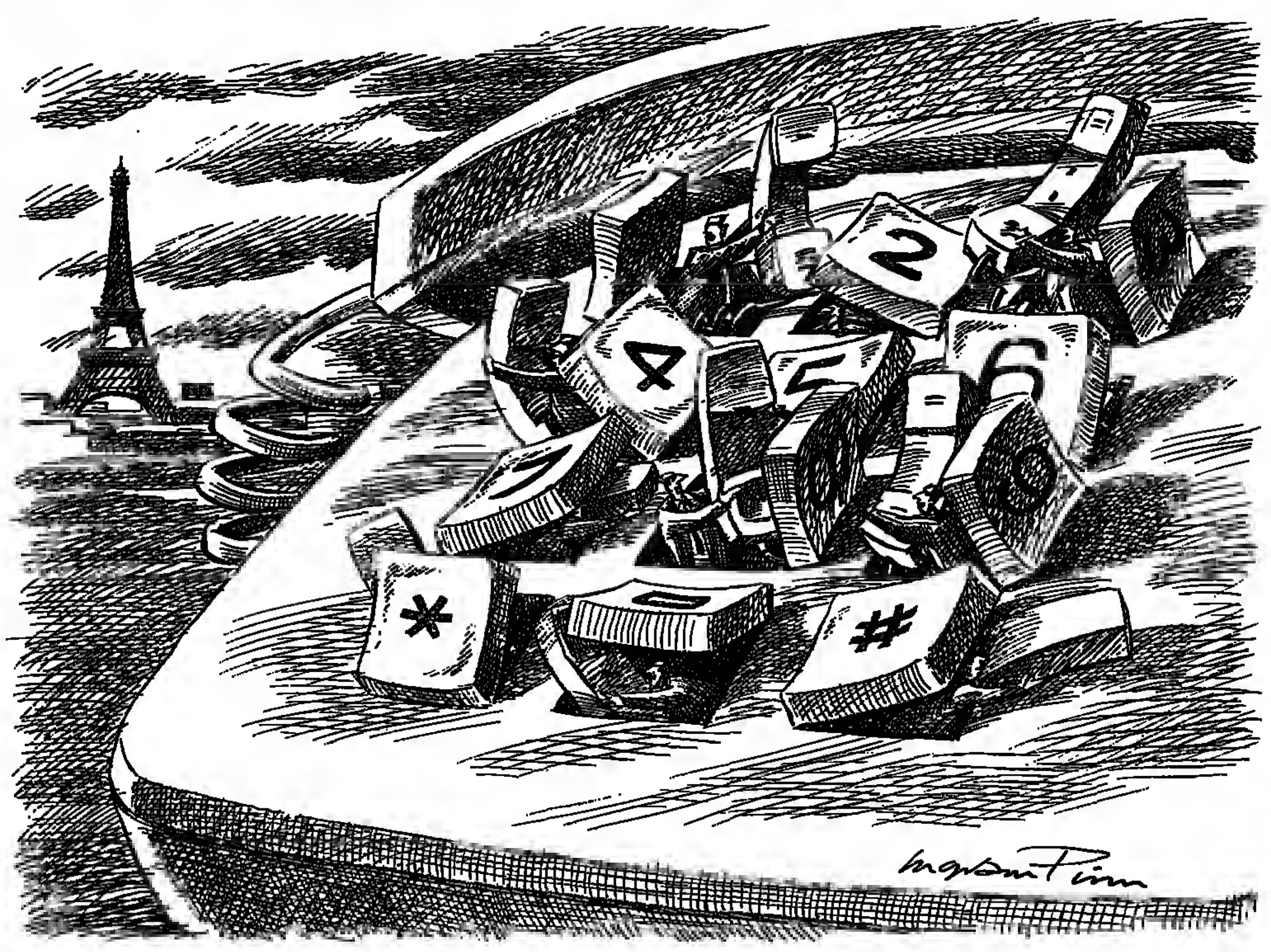
If the first digit dialled were 0, the call would be routed via the user's regular operator. Seven of the remaining nine possible first digits would be reserved for other long-distance operators the consumer might wish to use. (The other two first digits are needed for the emergency services and online services sncb as Minitel.)

"Single digit operator selection is very unusual," says Mr Andrew Entwistle, principal consultant at Analysys, a UK consultancy which advises governments on telecoms policy. If the French adopted such a system, it would be "a major signal of the government's intention to open up the French market very quickly".

Mr Lasserre says it will not be technically feasible to implement such a system in its entirety until 1999, however. From the first day of full competition until the necessary software modifications are completed, therefore, France Télécom will probably be the long-distance operator selected hy dialling 0 for the first number.

That would still leave consumers able to access alternative operators on a call-by-call basis without having to dial extra digits – as they do in the UK. In the US, consumers can nominate only one long-distance operator which they must use for all calls.

It has yet to be officially confirmed that the system outlined by Mr Lasserre is the one the French will choose, though he says it is "as good as decided". An announcement is expected before the end of the month.



But if it goes ahead, it will provide France with a system that should be more encouraging to new long-distance operators because it will be so easy for consumers to use them. This is essential for "the development of fair competitioo – in other words, of a real choice for the consumer", according to Mr Jean-Marie Messier, chairman of Compagnie Générale des Eaux.

The diversified French utilities group is aiming to be France Télécom's main domestic rival, in partnership with Britisb Telecommunications, Mannesmann of Germany and otbers. Other prospective market entrants include the recently unveiled joint venture between Bouygues, the French construction group, and Stet of Italy.

Both Générale des Eaux and Bouygues are already well entrenched in France's fast-growing but relatively late developing mobile telephone market which, in common with most other countries, is already open to competition. In Mr Messier's view, mobile telephony will account for virtually all growth in the French telecoms market in valne terms in years to come.

There is general agreement that it is in the long-distance market that the keenest competition to France Télécom will emerge initially after liheralisation. This is partly hecause, under the present system, revenues from long-distance calls are used, in effect, to subsidise local rental charges, which France Télécom says are the lowest in Europe.

This year's Telecommunications Act provides for this "disequilibrium" to be rebalanced at latest by December 31 2000. Uotil it is, there is an ohvious opportunity for new operators to undercut Fraoce Télécom on long-distance charges.

Tbis window of opportunity may not be as exteoded as some think, however. Mr Michel Bon, France Télécom chairman, says be wants this rebalancing process to be virtually completed by January 1998, in spite of the substantial increases in local charges it will entail for many clients.

In the market for local services, tbe main opportunity for new entrants appears to lie in providing high-quality networks for clusters of high-added-value – predominantly business – users in areas such as the futuristic La Défense commercial district on the western edge of Paris.

Such mini-networks for closed user groups are already allowed. MFS Communications, a US-based telecoms company, announced the link-up of its first corporate client to a 20km optic fibre network in the Paris sewers in May. Mr Messier of Générale des Eaux sald recently his company was aiming to have 19 such networks by 1998.

In the residential market, Mr Lasserre hopes that radio link-ups could help comparatively early development of effective competition. This would give operators access to the homes of telephone users without the need to construct costly wire or fibre-optic networks.

But the regulator acknowledges that the long-distance and international markets are where "the most immediate opportunities lie". Générale des Eaux's Mr Messier has made clear he intends to be "selective" in his approach to the residential local market: his medium-term market share target is just 10 per cent for local calls, as against 20 per cent for long-distance and 40 per cent for mobile calls.

The biggest obstacle to selling local services to individual users for new market entrants is the level of the cbarges France Télécom makes for connecting competitors' fragmented networks into its national network.

The level of these fees – whicb often account for a large proportion of operators' costs – will not be known for some months. In the view of Mr Bon, tbey should be fixed at a level that is "very slightly less" than what it would cost rival operators to provide the service themselves.

Générale des Eaux's Mr Messier argues that cbarges, mainly for linking calls made on France's three mobile networks into the local loop, are "abnormally high". They could have the effect of preserving an "effective monopoly" for France Télécom on local calls if they are not reduced. Mr Lasserre acknowledges, "everyone is negotiating in the dark".

Even if these issues can be resolved, France Télécom is well-prepared to fight off competition, after several years of heavy investment. Its network is fully converted to state-of-the-art digital technology and it is lean enough to "score well" on afficiency measures such as lines per employee, according to BZW, the investment arm of Barclays Bank.

And for all Mr Lasserre's good intentions, there is still widespread scepticism that the government will allow the regulator to be too tough on France Télécom. As BZW said in the summer: "Initial expectations are that the environment will not be aggressively geared against the existing telepbooe operator."

These expectations stem partly from the fact that the government bas plans to sell up to 49 per cent of the sbares in France Télécom. A stake of about 20 per cent is expected to be floated in April, which bankers estimate could raise between FFr20bn and FFr40bn, according to bow stiff the competitive environment is.

Mr Lasserre admits it would be "naive" not to recognise the governmeot's potential conflict of interest over France Télécom. But he argues the new regulatory authority is guaranteed independence under the law passed in the summer.

"The government cannot give [the new hody] any instructions," he says. "If it disagrees, all it can do is go to the courts."

In addition, all five members of the new body will be named for "irrevocable, oon-renewable six-year terms. They have no need to try to please."

But while Mr Lasserre is personally committed to introducing a greater degree of competition in France's telecoms than that in the US or the UK the toughest decisions have yet to be taken. Confirmation that the framework for choosing long-distance operators will indeed be along the lines Mr Lasserre described would augur well for future challenges.

Additional reporting by Alan Cane.

· OBSERVER ·

Music stops for Androsch

■ One game, at least, is up for Hannes Androsch. A good 16 years since he was first accused of tax evasion, the 58-year-old former Austrian finance minister has been ordered to pay a fine of Sch1.5m hy the supreme administrative court. He has finally run out of bodies to which to appeal.

Androsch was finance minister between 1970 and 1980, and the boyish-looking politician was often tipped as a future chancellor. As has now emerged, he was also operating a tax consultancy business, using his inside knowledge to trick his own ministry's officials. When he purchased a house in a posh district of Vienna, he told the authorities that the money came from an old family friend. Unfortunately, the supposed benefactor barely had two schillings to rub together.

He had to resign, hut that didn't stop him securing the chairmanship of Creditanstalt, then the country's largest bank. The new finance minister mada the file a top priority. But each time Androsch was convicted, he lodged another appeal.

As it happens, his monetary reversal coincides with a period of distinct buoyancy in his political stock. In recent years, in between consulting for businesses in central Europe, Androsch has been doling out criticism of his former assistant, Franz Vranitzky, who is now chancellor. Following the social democrats' defeat in the recent European Parliament elections, there are apparently those who look to Androsch to restore the party to its former glory.

Peak condition

■ Private islands are mostly out of favour with rich Greeks these days. With her father deep in litigation with the trustees of her fortune, Athina Onassis, 11, is not likely to visit Scorpios, her grandfather's hideaway, for a while. And since Stavros Niarchos died, there has been little activity at Spetsopoula off the Peloponnese. So why is the Latsis shipping group interested in Kyra-Panagia and Skantzoura, two small islands in the Sporades in the central Aegean?

It could of course be no more than a business deal. Both islands belong to Megisti Lavra, a monastery on Mount Athos, Greece's autonomous religious republic whose monks have a shrewd eye for profit. One island has substantial deposits of marble. The other could become a luxury resort for well-heeled environmentalists – the islands are home to rare monk seals.

But locals suspect the Latsis family is fronting for former King Constantine. His family has nowhere of its own in Greece, their property having been confiscated by the state after the monarchy was abolished in 1973. Constantine is on good terms with the Orthodox Church and the Latsises have been generous contributors to the ex-royal coffers. Remote Aegean islands with extra-territoriality just don't come up all that often.

Who's counting?

■ No one disputes that Helmut Kohl is about to surpass Konrad Adenauer as Germany's longest serving chancellor. But there is a minor disagreement as to when the great man will enter the history books.

Everyone had assumed the big day to be October 31. That will be Kohl's 5,145th day in office since displacing Helmut Schmidt through a vote of no-confidence in the Bundestag. It is one day longer than Adenauer's 14 years and 31 days from his election on September 15 1949 to his resignation on October 15 1963.

DPA, the German news agency, meanwhila yesterday named October 30 as the all-important date, on the grounds that the constitution says a person only becomes chancellor on receiving the formal deed of office from the presidant. In Adenauer's case, that was on September 16 1949.

And what of October 26? This applies if you start counting when the chancellor gives his oath in the Bundestag. Constitutional experts doo't like this one; Adenauer's oath was delayed, they point out.

The government informatioo machine, which had previously specified October 31 as K-Tag, has engaged neutral, claiming there is no official view. Kohl, meanwhile, will be in the Far East for the duration. Could he have had an inkling of the controversy in advance?

Heavy seller

■ For the fourth week in a row, unemployed barman Gerry Adams finds himself astride the top of Ireland's list of best-selling books.

Copies of Before the Dawn, the folksy account of his early years as a republican leader, are still walking out of the bookshops, despite prime minister John Bruton's claims that the IRA is a fascist organisation employing Nazi-type tactics. The government film censor has even issued a special certificate allowing schoolchildren to watch the violent new epic on the life of Michael Collins, founder of the IRA, a film which heavily fictionalises the bloody events surrounding Irish independence.

The Financial Times

50 years ago

America And Inflation
President Truman's decision to accelerate the removal of existing controls on prices and wages may well prove to be one of the most important economic developments in tha post-war period. The fear which springs immediately to the mind is that the decision destroys the last remaining obstacles to an inflationary hcom of serious proportions, culminating ultimately and inevitahly in a severe depression whose repercussions would be felt throughout the world.

Lower Diamond Prices
The news that diamond prices have fallen in tha United States should not come as a surprise. Prices bad heen rising there almost uninterruptedly since the beginning of the war, and the American demand has been partly on account of hoarders. Prices of cut goods have alwaya closely followed the treod of Wall Street. The easier tooe now is ascribed to large imports and an increasing flow of capital into durable consumer goods, but the Wall Street fall may have played a part. The capacity of the market has obviously heen temporarily over-estimated.

FINANCIAL TIMES
Friday October 18 1996

Emerging markets survey warns of corruption pitfalls

Russia 'riskiest' for investors

By Richard Lapper, Capital Markets Editor, in London

Political uncertainty, widespread crime, extortion, and a thriving black economy make Russia the riskiest of popular emerging markets in which to do business, according to a survey published yesterday.

The survey, by Merchant International Group (MIG), a London-based corporate intelligence and research consultancy, measures business perceptions of corruption, bureaucratic delays and other factors and combines this with more conventional political risk analysis.

Based on responses from more than 2,500 US and UK companies, it ranks emerging markets where foreign investors are already active. Venezuela, Mexico, Pakistan and Brazil are rated as the second, third, fourth and fifth riskiest markets.

When the survey was last conducted two years ago Nigeria was rated most risky. It has since become less popular among investors and was excluded from this year's survey.

Mr Stuart Poole-Robb, chief executive of MIG, said: "If companies carry out country risk analysis just using traditional credit agency ratings or macro-economic and political risk studies, they will get e total distortion of the real risks they will encounter when operating overseas."

As well as bureaucracy and corruption, the survey identifies "grey area dynamics", which include practices like counterfeiting and unfair competition by state-owned or other local companies. These can frequently have a much bigger impact on companies operating overseas than macro-economic and political risks.

"A country like Indonesia (which came seventh in the survey as a whole) has an increasingly respectable credit standing and has started to score well on most quantitative studies . . . Our research discovered, however, that it has a higher level of corruption and bureaucratic delay than any other country in the survey," Mr Poole-Robb said.

Russia, however, has the worst risk weighting because of its political situation, yet is only fourth most risky in terms of bureaucratic delays and corruption.

China is rated the second most risky country from the point of view of bureaucratic delays and corruption, while Pakistan is rated third on this score.

Mr Poole-Robb said many of the companies surveyed had "piled into the emerging markets where they had no experience, no local contacts and little understanding of the risks to which they were exposing their businesses. We were amazed at the levels of ignorance, naiveté and arrogance we saw in the companies in our survey."

He said that the political risk analysis provided by banks was sometimes "subjective", because it was based on the exposure a bank might have in a market.

The companies surveyed have minimum turnover of around $155m each and were targeted because they operated in highly volatile overseas markets.

Lebed is dismissed by Yeltsin

Continued from Page 1

the centre of a series of embarrassing battles within the government. On Wednesday General Anatoly Kulikov, the minister of the interior, accused the security chief of planning a coup. The charges were covered on Russia's television stations, including the channel owned by Mr Berezovsky.

The clash between Mr Lebed and Mr Kulikov took a twist yesterday, when Mr Lebed's staff captured four policemen who Mr Lebed claimed had been sent by the ministry of the interior to spy on him.

The ministry denied it, saying that Mr Lebed had seized four officers involved in an anti-terrorism operation.

Philip Coggan adds: Shares in Moscow fell in response to the news of Mr Lebed's sacking, with the Moscow Times Index dropping by 3 per cent in response to the uncertainty created by the move.

Setback for EU as plug is pulled on a current project

By Emma Tucker in Brussels

In Belgium, they have two prongs and a hole; in France two prongs, no hole; in the UK three rectangular prongs and a fuse; and in Switzerland three round prongs. And that is how electric plugs will remain.

Cenelec, the European body which sets electrical standards, has finally pulled the plug on the Euro-plug, after more than five years of wrangling over the merits and design of a harmonised system.

"Establishing a European single currency appears to be easier than establishing a European single plug," said Mr Nick Glover of the British Radio and Electrical Equipment Manufacturers Association. It was "pitiful" that the best "plug and socket brains" in Europe were unabla to agree a design for a Euro-plug, he added.

European business travellers will still have to pack a little sack of adaptors while makers of electrical goods will have to modify their products for different markets.

Abandonment of the proposals marks a setback for the single market. For the European Commission a harmonised plug was of symbolic importance.

Commercial, safety and technical objections – raised most vociferously by Germany and Britain – appear to have scuppered a deal between Cenelec's 18 members, which together account for 20 different plug and socket systems.

Yesterday Cenelec refused to reveal which countries had voted against the proposals, saying only that "various technical reasons" had proved unacceptable to a number of national committees.

Some industry sources suggested, however, that plug and socket producers preferred not to open their national markets to greater competition from a harmonised pan-European plug. The news frustrated makers of electrical goods who would like to be able to put the same moulded plug onto virtually every appliance they sell in Europe.

"You have the absurd situation that an expensive piece of electrical equipment can meet the necessary European standards in all ways except for the cheap little plug," said Mr Glover.

Advocates of a harmonised system say the current situation carries costs for the consumer. "You and I pay a lot more for appliances because it costs manufacturers to fit different plugs," said Mr Simon Hossack, a campaigner for a harmonised system.

Plug and socket manufacturers believe there is little point in continuing efforts to standardise. But many in favour of a harmonised plug and socket system will urge the European Commission to continue the fight for a single European plug.

Deutsche Telekom oversubscribed

Continned from Page 1

between 1 and 5 per cent. It will also announce just how many people subscribed to the prefereotial treatment scheme.

Later next week Mr Ron Sommer, the chief executive, and Mr Joechim Kröske, finance director, will begin a series of roadshows market the issue to institutional investors worldwide.

Deutsche Telekom and the three banks coordinating the issue – Deutsche Bank, Dresdner Bank and Goldman Sachs, tha US investment bank – are examining how they can satisfy the unexpected surge in retail demand without disappointing institutional investors – many of whom have to buy the stock because it will make up about 4.5 per cent of the German DAX share index.

Any scaling back of the share allocation to individual investors would ba a considerable embarrassment to Deutsche Telekom.

"We have to make sure that, with the whole euphoria we have produced here in Germany, we do not now disappoint people," said one executive close to the issne. "We have to ensure that we find a sensible mix."

The strong demand from individual investors also has undermined the German government's reluctance to privatise its share holdings, which it believed would be difficult to sell to Germans who traditionally have regarded them as too risky.

The precise allocation between retail and institutional investors will be decided on November 16 or 17, a day or two before the listing of Deutsche Telekom's shares on stock axchanges around the world.

Publication has been brought forward because the prospectus will be released in the US oo Monday.

Takeover approved

Continued from Page 1

son'a TV brands from five to two.

Daewoo Electronics said the Thomson acquisition was central to its plans to invest $2.6bn in Europe over the next five years, with France accounting for $1.5bn.

The addition of Thomson has boosted Daewoo'a share of global TV production to 15 per cent, making it the largest in the world.

Shares in Daewoo Electronics rose by won 420 to close at won 7,420 yesterday.

THE LEX COLUMN

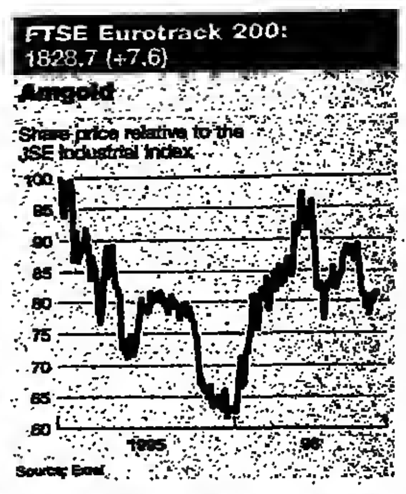
Bear-baiting

If circumstances were different, the sacking of Mr Alexander Lebed might have been seen as good news. After all, it reinforces the position of the Kremlin's grey men – Mr Victor Chernomyrdin and Mr Anatoly Chubais – whose macroeconomic caution is music to investors' ears. What complicates the picture is the fragile state of President Boris Yeltsin's health; this makes a serious threat to the current regime easier to imagine than, say, nine months ago. This is certainly an awkward moment to risk turning Mr Lebed into a martyr.

But everything depends on his reaction. If Mr Lebed settles down to vociferous but peaceful opposition, his exit will have made little difference. Investors' big worry – that Mr Yeltsin may die under the knife or, arguably worse, cling on obviously incapacitated – would be little changed. It is only if Mr Lebed shows real signs of working ontside the democratic system that panic would be justified. And even then, for all the excitable talk of private armies, the Russian state machine remains quite a nut for even a military hero to crack.

The snag is that this is unlikely to be clear for some time. Meanwhile, tha news is a powerful reminder of the risks of investing in Russia; its bond and equity markets will probably continue to suffer. For Gazprom in particular, whose already ambitious share offering is under way, Mr Lebed's ejection is dreadfully timed.

FTSE Eurotrack 200: 1828.7 (+7.6)



US carmakers

All three of Detroit's big car manufacturers revealed healthy-looking third-quarter results this week. In reality, the honours were unevenly divided. Chrysler is still top of the class. Its strength in jeeps and pick-up trucks, the fastest-growing segment of the US market, is helping it gain market share. That has allowed it to rednce rebates to around $600 per vehicle, whereas Ford had to raise its own by a third to $1,100 over the summer to keep up the sales momentum of its new models. That has widened further the gap between Chrysler's net margins, which are now nearly 6 per cent, and those of General Motors and Ford at around 2 per cent each.

For investors, there is currently little to choose between those two. GM is losing share fastest in the US, mainly because its unusually large number of brands compete with each other as much as with rival modals. But at least GM's international operations are performing well. By contrast, Ford's European business is in such e mess that Mr Alax Trotman, its chairman, is personally overseeing its restructuring. Despite their differing fortunes, tha big three have underperformed the US market over the past two years and all are lowly valned at less than three times enterprise value to this year's forecast operating cashflow. That reflects the pedestrian growth expected from world car markets next year, but seems unduly unfair on Chrysler.

Anglo American

What's in a name? Anglo American, the world's largest gold producer, has renamed its gold division Anglogold. Cynics might dismiss this as a cosmetic exercise. But they would be wrong. The management restructuring which accompanied the name change represents a serious attempt to drag the group's gold operations into the present. On the production side, more authority is being devolved to the mines, with much greater emphasis on the profitability of individual shafts. The dead hand of the centre, the distinctive feature of the Sonth African mining industry, is slowly being prised away.

The gronp is also on a charm offensive. Traditionally investor relations and marketing have been treated as a necessary evil, a far cry from more aggressive US gold producers like American Barrick. But the huge sums necessary to develop expensive new deep-level mines have helped focus attention on how to improve its image. Longer term, more dramatic measures will be necessary if Anglo is fully to realise the valne of its gold assets. Minorco, its offshore associate, has extensive gold investments in north and south America. Apart from Anglogold, Anglo itself has separate gold financing and exploration arms, as well as direct holdings in operational mines. Combining these would create the sort of focused investment vehicle, along the lines that smaller competitors like Gencor and Anglovaal have set, which might appeal to tha hitherto elusive foreign investor.

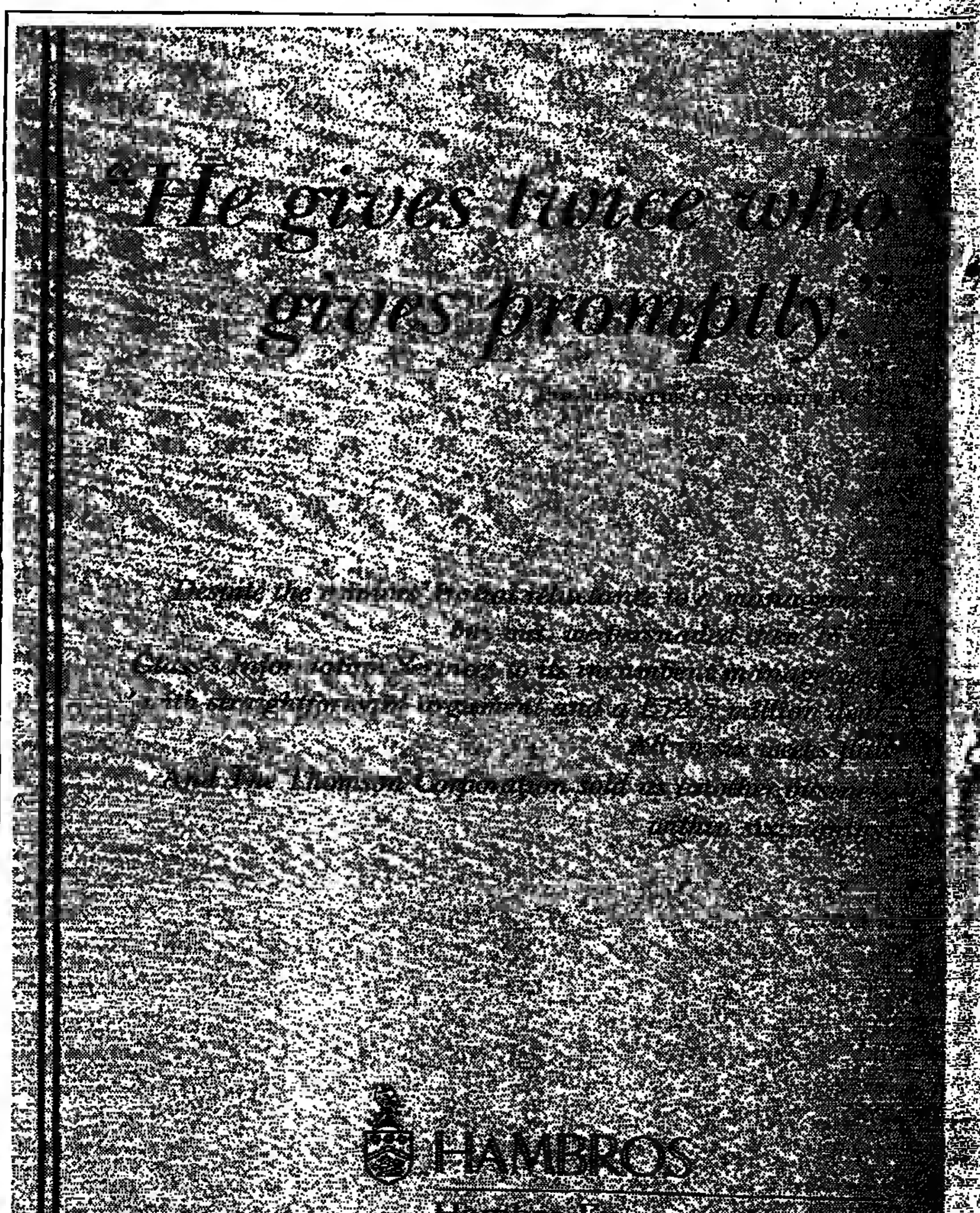
Takeover derivatives

To acquira Thomson, France's Lagardère is designing a financing package as complex as its own missiles. One bit of financial wizardry likely to be called on are so-called contingent value rights (CVRs) – derivatives that hava bean employed in US takeovers but are rare in Europe.

CVRs are most often used to protect minority investors in a takeover where the bidder wants to retain the target's listing. The minority holders are persuaded to keep their shares by being offered CVRs as well. These securities compensata investors if the related shares fall below a specified level by a set date. Rhône-Poulenc used CVRs to take control of Rorer, the US drug company, because it did not want to lose Rorer'a separate listing with its high rating. Lagardère plans to issue CVRs to minority shareholders in Thomson-CSF, because it does not want to pay out huge sums of cash given its small balance sheet.

CVRs can be an attractive way of providing investors in a target company with security. But, like all insurance policies, CVRs are not risk-free. If the share price falls, the cost to the bidder could be painful. This nearly happened when Viacom bid for Paramount in 1994. Unusually, it promised to compensate shareholders by giving them more Viacom shares rather than cash. This triggered a downward spiral in its shares, as investors fearing dilution drove the shares down which then meant Viacom risked paying even more compensation leading to further dilution. Fortunately, the shares recovered – but only in the nick of time.

Additional Lex comment on Lonrho, Page



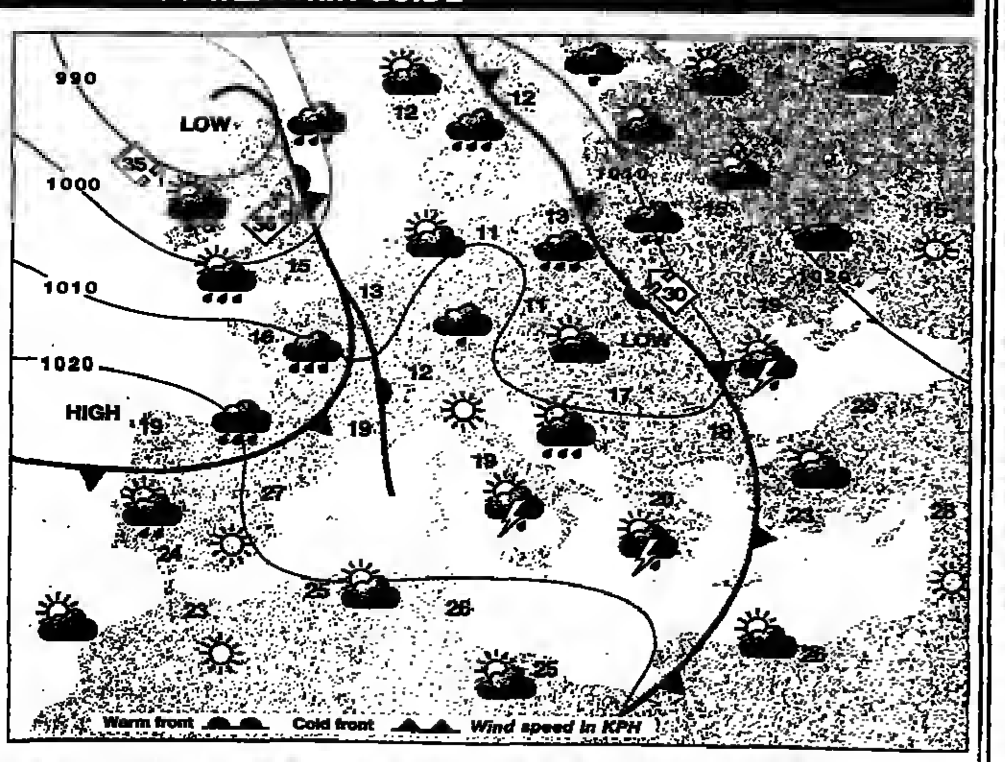
FT WEATHER GUIDE

Europe today

Western Europe will be dominated by cloud and rain. Germany and the Benelux will have e sunny start but cloud will increase from the west during the morning. Thickening cloud will produce rain in the afternoon. Northern Italy will clear as the low that caused the severe weather of the last few days moves towards Romania. Southern Italy will still have thunder showers. Low pressure will also produce thunder showers in Greece, especially over the northern Aegean. Scandinavia will be cloudy with rain which may turn to sleet in central regions.

Five-day forecast

North-westerly flow will cause cool air to spread over most of Europe. Frequent showers will occur in the cool air mass. The western Mediterranean will remain sunny while eastern parts will have showers and thunder storms.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 17	Caracas	fair 31	Faro	sun 24	Madrid	cloudy 22	Rangoon	fair 33
	Celsius	Belfast	shower 13	Cardiff	shower 15	Frankfurt	rain 13	Majorca	sun 24	Reykjavik	sun 7
Abu Dhabi	sun 35	Belgrade	fair 17	Casablanca	sun 22	Geneva	rain 13	Malta	shower 23	Rio	fair 24
Accra	fair 31	Berlin	cloudy 11	Chicago	cloudy 8	Gibraltar	sun 23	Manchester	rain 14	Rome	fair 20
Algiers	fair 25	Bermuda	sun 27	Cologne	rain 13	Glasgow	rain 13	Manila	rain 32	S. Frsco	fair 20
Amsterdam	rain 13	Bogota	fair 19	Dakar	sun 31	Hamburg	rain 12	Melbourne	fair 18	Seoul	cloudy 19
Athens	sun 23	Bombay	sun 35	Dallas	sun 21	Helsinki	rain 8	Mexico City	fair 24	Singapore	shower 31
Atlanta	thund 14	Brussels	rain 13	Delhi	sun 31	Hong Kong	sun 28	Miami	rain 29	Stockholm	rain 12
B. Aires	fair 25	Budapest	fair 17	Dubai	sun 32	Honolulu	fair 31	Milan	fair 16	Strasbourg	rain 13
B.ham	shower 14	C.hagen	fair 11	Dublin	shower 14	Istanbul	thund 22	Montreal	sun 11	Sydney	shower 23
Bangkok	shower 38	Cairo	sun 30	Dubrovnik	shower 17	Jakarta	fair 32	Moscow	cloudy 7	Tangier	fair 23
Barcelona	sun 22	Cape Town	sun 26	Edinburgh	rain 13	Jersey	shower 14	Munich	rain 11	Tel Aviv	sun 31
						Karachi	sun 34	Nairobi	fair 28	Tokyo	fair 22
						Kuwait	sun 32	Naples	shower 18	Toronto	thund 16
						L. Angeles	sun 23	Nassau	rain 28	Vancouver	rain 12
						Las Palmas	sun 28	New York	cloudy 17	Venice	shower 17
						Lima	fair 18	Nice	sun 19	Vienna	rain 14
						Lisbon	cloudy 23	Nicosia	sun 26	Warsaw	fair 16
						London	shower 16	Oslo	cloudy 10	Washington	shower 23
						Lux.bourg	rain 11	Paris	rain 14	Wellington	cloudy 15
						Lyon	rain 15	Perth	sun 22	Winnipeg	sleet 4
						Madeira	sun 24	Prague	cloudy 11	Zurich	rain 11

FINANCIAL TIMES
COMPANIES & MARKETS
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Friday October 18 1996

IN BRIEF

Anglogold dips 3% in quarter

The rising trend in the quarterly earnings of South African gold producers faltered as Anglogold, the gold and uranium division of Anglo American, reported a 3 per cent fall in after-tax profits to R312.2m ($69.9m). The decline reflected higher working costs at most mines, due in part to annual wage increases of 9-10 per cent. Page 20; Lex, Page 16

Colgate rises to $155.6m
Colgate-Palmolive, the US toothpaste and soap company, ended a string of profit falls by reporting net profits of $155.6m, or $1.06 a share, after preferred dividends in the third quarter. The figure represented an increase of 37 per cent from the $113.6m profit in the same period last year, or 78 cents a share, before a restructuring charge. Page 18

BBV to inject $50m into Latinvest
Banco Bilbao de Vizcaya, Spain's second-largest bank, is to inject $50m of capital into Latinvest, the Latin American brokerage house, after completing the acquisition next week, and will provide several hundred million dollars in credit lines to allow it to expand its presence in bond markets. Page 18

Ontario plans water agency sell-off
The Canadian province of Ontario has unveiled plans to privatise the Ontario Clean Water Agency, which claims to be North America's biggest operator of water and sewage treatment systems. Page 18

Finnish forestry groups' earnings slide
Finland's UPM-Kymmene, Europe's biggest forestry sector company, announced a 43 per cent drop in pre-tax profits in the first eight months of the year from FM4.6bn to FM2.6bn. At Metsä-Serla, UPM's domestic rival, pre-tax profits slid from FM1.3bn to FM336m. Page 20

Exceptionals leave Albert Fisher in red
Goodwill write-backs at Albert Fisher, the UK fresh food supplier that last week announced the £73.5m ($114.7m) disposal of its North American distribution business, helped push the group £110.9m into the red in the year to August. Profits last time were £31.1m. Page 22

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Lahmeyer	575	+	25
Springer Axel	980	+	10
Falls			
DLW	85	−	3.5
Hartz	182	−	3
VEW	500	−	13
Volkswagen	583.75	−	6.45
NEW YORK ($)			
Rises			
Flores & Rucks	44¼	+	3
Input/Output	26⅞	+	2⅝
SGS-Thomson	59⅞	+	4⅝
Falls			
Conseco	19¼	−	2½
Gen Instrument	22	−	4⅞
Glossine	32⅝	−	2⅝
LONDON (Pence)			
Rises			
Bluebird Toys	172½	+	10
JLI Grp.	65½	+	6
Ramco Engy	747½	+	42½
Reliar	133½	+	10
Falls			
Jacques Vert	29½	−	12
Nat. Clark	287½	−	11½
TORONTO (C$)			
Rises			
Am Safety	14.70	+	0.70
Reitman's	15.10	+	0.75
Winpak	31.45	+	1.25
Falls			
Dorling	15.00	−	1.00
Electrohome	10.75	−	1.10
Intl Corster	11.50	−	1.00
PARIS (FFr)			
Rises			
Alcatel	462.5	+	6.8
Bouygues	512	+	14
GTM-Ent	248.5	+	7.5
Lagardere	184.8	+	31.5
Peugeot	570	+	8
Falls			
Sidel	335	−	3
TOKYO (Yen)			
Rises			
Fudo Costm	777	+	29
Izumiya	1920	+	70
Nippon Sig	1090	+	50
Tokyo Bcast	1850	+	70
Falls			
Calpis Food	761	−	33
Tokyo Style	1800	−	50
HONG KONG (HK$)			
Rises			
Beijing Dev	1.5	+	0.48
ITC	2.2	+	0.32
MC Pckg	2.575	+	0.22
Whitney	1.78	+	0.25
Falls			
Asia Secus	2.25	−	0.2
Sun Hung Kai	2.1	−	0.3
BANGKOK (Baht)			
Rises			
Italian-Thai	136.0	+	10.0
Rockworth Pb	38.5	+	3.0
Supalai Pb	36.0	+	3.25
Falls			
Karat Sntry	55.0	−	6.0
Nippon Pckg	76.5	−	8.5
Thai Fin	47.75	−	5.25

New York & Toronto prices at 12.30

Strong third quarter at SGS-Thomson

Franco-Italian group bucks downward semiconductor trend

By David Owen in Paris

Shares in SGS-Thomson Microelectronics rose nearly 10 per cent in Paris yesterday as the Franco-Italian semiconductor manufacturer unveiled third-quarter results indicating it was continuing to perform well in spite of difficult conditions in the semiconductor market.

The company, the world's 12th largest chip manufacturer, reported that net earnings for the three months to September 28 increased 2.6 per cent from $129m to $132.4m. This took the total for the first nine months to $483.5m – a 35 per cent improvement on the $358.5m achieved in the nine months to September 30 1995.

Mr Pasquale Pistorio, president and chief executive officer, claimed the results "set us apart from the industry average during this difficult market environment".

He said differentiated products dedicated to a particular customer or application continued to grow as a percentage of revenues, reaching almost 60 per cent in the third quarter. While the company was experiencing "pricing pressures of varying degrees" throughout its product portfolio, it had been able to maintain "reasonable" gross margins.

Mr Pistorio said the group still had insufficient capacity to meet demand for certain products. Commercial output from a new semiconductor plant in Sicily is scheduled to begin early next year.

Net revenues for the third quarter advanced more than 7 per cent from $922.6m to $988.4m. Net earnings per share fell from $1 to 95 cents. Net revenues in the latest quarter included $16.7m in licence fees. These, in turn, contributed $13.4m to net earnings and 10 cents to earnings per share.

Third-quarter operating profits amounted to $167.4m or 16.9 per cent of revenues. There was a sharp increase, from $109.3m to $134.5m, in research and development expenses. Net interest expenses, by contrast, fell by more than half from $6.7m to $3.2m.

At September 28 the group said its total debt was $596.6m, of which long-term debt amounted to $172.1m. This represented 5.5 per cent of total equity.

The jump in the share price left the company's stock at FFr286.50 – a gain of FFr24.50 on the day. About five weeks ago, the shares rose more than 5 per cent in one day on an announcement that the company had developed an anti-copying device for use in digital video disc players.

It emerged earlier this week that the 17.4 per cent stake in the group held by Thomson-CSF, the defence electronics business set to be acquired by the Lagardère conglomerate, is likely to be sold. It is widely assumed this stake will end up in the hands of one or both of the company's other large French shareholders: France Télécom and CEA-Industrie.

World stocks, Page 38

Pearson names new chief from Economist

By Raymond Snoddy in London

Pearson, the UK media, information and entertainment group, yesterday announced big changes in its top management, including the appointment of Ms Marjorie Scardino, the current chief executive of The Economist magazine group, as chief executive.

Mrs Scardino, believed to be the first female chief executive of a FTSE 100 company, will take up the job at the end of the year when Mr Frank Barlow, the 66-year old managing director of Pearson, which owns the Financial Times, retires.

Mr Dennis Stevenson, a Pearson non-executive director who is chairman of GPA, the aircraft leasing group, has been appointed deputy chairman. He will become chairman next May when Lord Blakenham, the present chairman, retires at the age of 59.

Mrs Scardino, 49, was not an obvious choice and her appointment surprised analysts.

The new team marks a break with the past. It will be the first time that members of the founding Cowdray family are not represented at the top of Pearson. The appointments also complete a generational change at Pearson, which recently appointed three other directors in their forties.

Ms Scardino was a reporter for the Associated Press news agency, a partner in a Savannah, Georgia, law firm and founded an award-winning US newspaper before becoming president of the North American operations of The Economist, which is 50 per cent owned by Pearson. She took over the running of the entire group in 1993.

She is married to a journalist, Mr Albert Scardino, and has three children. Mrs Scardino is a non-executive director of W.H. Smith, the UK retailer, and is on the board of ConAgra, the US food group.

It is believed a number of senior executives from large media groups were approached by Pearson during the recruitment process.

City analysts, who expected the appointment of a "heavy-hitter" from outside Pearson yesterday marked the company's shares down on the news. They closed 11½p lower at 678½p, although other media shares fell yesterday.

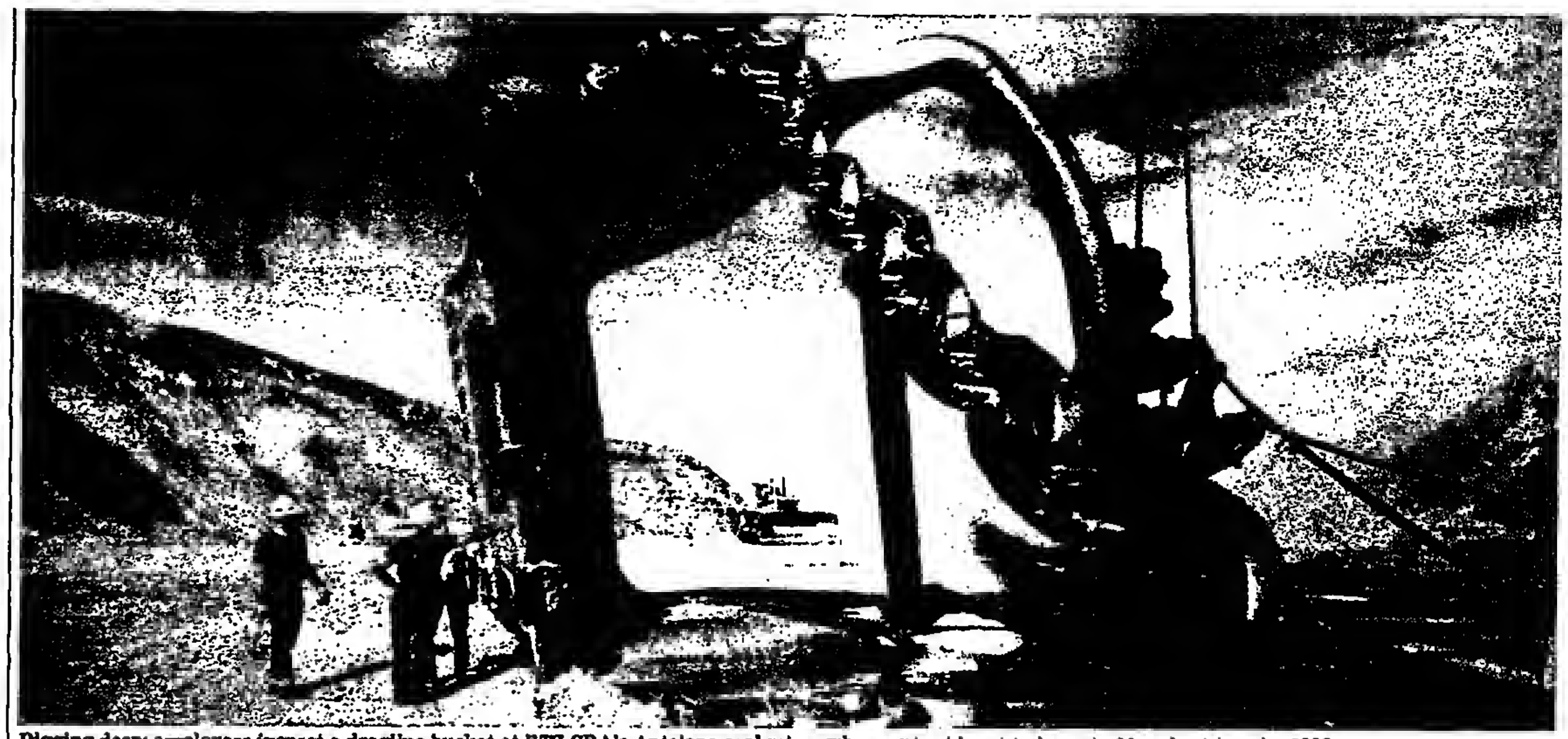
"She may be good. She may be extremely good but this will only be reflected in the share price retrospectively when she proves it," one media analyst said.

Mr Stevenson, 50, is a non-executive director of British Sky Broadcasting, J. Rothschild Assurance and Manpower. He has been chairman of the trustees of the Tate Gallery for most of the last decade.

Mr Stevenson last night paid tribute to both Lord Blakenham and Mr Barlow. He said that when Lord Blakenham was appointed chief executive of Pearson in December 1977 the company had a market capitalisation of £138m, compared with the present figure of £3.9bn.

Mr Stevenson said Mr Barlow had "turned the Financial Times organisation into a thriving economic success" and had played the key part in some of Pearson's most important developments – the involvement in BSkyB, its purchase of Recoletos, the Spanish newspaper group, and the move into television production.

The changing of the guard, Page 22



Digging deep: employees inspect a dragline bucket at RTZ-CRA's Antelope coal mine, where output is set to jump to 20m short tons by 1998

RTZ-CRA plans doubled US coal output

By Kenneth Gooding in Gillette, Wyoming and Jane Martinson in London

RTZ-CRA, the world's biggest mining group, plans a near-doubling of production from its US coal mines by 2005.

The Anglo-Australian group is moving to take advantage of US clean air laws which are expected to boost demand for its low-sulphur coal.

The company moved into US coal in 1993 with two acquisitions worth £480m ($748.8m). It is the fourth-largest producer in the US. This year output from its mines – mainly in the Powder River Basin on the Montana-Wyoming border – will reach about 45.7m short tons, up from 43.7m in 1995.

Mr Greg Boyce, president of Kennecott Energy Company, the RTZ-CRA division responsible for US coal operations, said that by 2005 annual output would reach 85m tons.

The company says demand for its Powder River Basin coal is set to rise because it is low in sulphur. The second phase of the US's Clean Air Act, which comes into effect in 2000, sets new pollution limits. Many power stations will either have to introduce emission control equipment or use low-sulphur coal. Demand for this fuel is predicted to grow at twice the 2 per cent annual rate for total US coal demand.

Analysts said yesterday that the RTZ-CRA move was part of a trend towards low-sulphur coal among US mining companies. But although easy to mine, the low energy levels of low-sulphur coal and its abundance had made it relatively low-margin.

Ms Louise Hough, analyst at SBC Warburg in the UK, said that while low-sulphur coal did not currently sell at a big premium to its high-sulphur counterpart, the gap would widen after 2000.

RTZ-CRA targeted this type of coal when it moved into the US – even though the coal has less energy and attracts big transport costs because of the distance it must travel to reach customers.

The main increases in RTZ-CRA US coal output will come from the Antelope, Cordero and Spring Creek mines. It is planned that production at Cordero will go up from 14m tons a year to 30m.

At the Antelope mine new equipment will be introduced to take annual output from 12m tons to 20m in 1998 and eventually 30m. "It will become the lowest-cost producer in the Powder River Basin," said Mr Boyce.

He said the Spring Creek mine was a special case because its coal had a high sodium content which created extra waste problems for many power stations. Output would rise from 9m to 20m tons.

Mr Boyce said Kennecott Energy was ready almost to double its present 1bn tons of coal reserves by acquiring new ones next to its mines when this became necessary.

He believed the company could take advantage of further consolidation of the US coal business through acquisitions.

Commodities, Page 28

AT&T credit card division slips into deficit

By Richard Waters and John Authers in New York

AT&T's credit card business, the third-largest in the US, stumbled into the red during the summer as personal bankruptcies across the nation mounted, the company reported yesterday.

News of AT&T's credit card problems came as the US telecommunications company reported an 11 per cent fall in overall profits during the third quarter of the year. The decline, stemming from competition for long-distance business, had been foreshadowed in an announcement three weeks ago.

The telephone company's credit card difficulties reflect the growing credit losses suffered by US card issuers this year, and the increasingly cut-throat competition that has eaten into one of the financial industry's most profitable businesses.

Yesterday's news also points to the problems that some US companies have had in trying to become financial services powerhouses from scratch.

AT&T's Universal Card, which was created in 1991, has come to symbolise the attack by industrial companies on a market traditionally dominated by banks. With 18.1m credit card accounts, it is now behind only Citicorp and Chase Manhattan in terms of size.

However, the company said yesterday that its Universal Card business had lost $35m during the third quarter, compared with a profit of $47m a year before.

The problems stem from a rise in the proportion of loans it has had to write off, to 6.15 per cent. This level is about one percentage point higher than the industry average.

The largest banks which issue credit cards announced results this week which suggested the problem of bad debts had peaked at levels which allowed them to sustain profitability.

At Citibank, the largest US card issuer, the proportion of loans written off rose slightly, to 5.11 per cent, compared with 4.99 per cent in the previous quarter. It admitted that it had slowed down its effort to attract new customers.

Chase Manhattan, the second-largest issuer since its merger with Chemical, reported charge-offs of 4.95 per cent of average loans. Both banks said personal bankruptcies, which require loans to be written off immediately, had been the single greatest problem, accounting for 38 per cent of write-offs at Citibank.

Mr David Hunt, a former banker who was brought in two years ago to head the Universal Card business, resigned in September. AT&T maintained yesterday he had left for personal reasons. It also reiterated that it did not intend to sell its credit card business.

Mr Thomas Facciola, a credit card industry analyst at Salomon Brothers, said AT&T had cut back its marketing to reduce its risks. However, many card issuers continued to compete fiercely for new customers.

AT&T results, Page 18

Ontario to privatise water agency

By Bernard Simon in Montreal

Ontario has unveiled plans to privatise the Ontario Clean Water Agency, which claims to be North America's biggest operator of water and sewage treatment systems.

Bidders are likely to include several foreign water companies, which have shown a keen interest in Canada over the past year as financially strapped local authorities turn to private-sector contractors to finance, manage and modernise their water and sewage facilities.

Lyonnaise des Eaux, the French water group, said yesterday that it would be interested in bidding for OCWA. Lyonnaise des Eaux set up an office in Toronto earlier this year.

Another possible contender is TAP, a consortium led by CH2MHill, a Colorado-based engineering group, and Vancouver-based BC Gas. Another is Consumers Utilities, a joint venture between the UK's North West Water and Consumers Gas, Ontario's biggest natural gas distributor. Consumers was chosen earlier this year to examine ways of averting a looming water shortage in York Region, a sprawling local authority north of Toronto.

OCWA, set up in 1993, manages water and sewage services for about 3m Ontario residents. It has annual contract revenues of about C$125m (US$92.6m). Profits have been about C$40m over the past two years.

Mr Norman Sterling, the province's environment and energy minister, gave no timetable for selling OCWA, but was reported as saying that "the sooner we act . . . the better off we will be".

Many Canadian municipalities have shown an interest in "public-private partnerships" with outside contractors.

But water-treatment companies have expressed frustration over the slow pace of the bidding process.

The only contract awarded so far in Ontario has been a 10-year deal between Hamilton, Canada's steel centre, and Philip Environmental, a local company.

Ontario's Progressive Conservative government, which took office in mid-1995, has pledged to turn many functions over to the private sector in an attempt to improve efficiency and to meet its goal of a balanced budget by 2001.

Tenet in $1.7bn hospitals purchase

By Lisa Bransten in New York

Consolidation in the US hospital sector continued yesterday as Tenet Healthcare, the country's second-largest hospital management company, agreed to buy OrNda Healthcorp for about $1.7bn.

The merger is expected to be completed in the first quarter of next year pending the approval of state and federal regulators. It will create a company with revenues of $8.5bn and 126 hospitals concentrated in south-eastern and southwestern USA.

The new group, which will be a dominant healthcare provider in southern California, expects to save about $70m in costs by 1998.

Hospitals are one of most fragmented segments of the US healthcare sector. Some 85 per cent of the market is controlled by locally managed, not-for-profit hospitals. The private sector is dominated by Columbia/HCA Healthcare, which controls about 7 per cent of community hospitals with nearly 350 facilities and is expected to generate about $20bn in revenues this year.

Columbia has also been among the most acquisitive of healthcare companies, purchasing four large hospitals and other healthcare providers between 1992 and 1995. In the first half of 1996 it acquired 25 hospitals and signed letters of intent to buy another 15.

Further consolidation is expected as hospitals across the country face the falling revenues and occupancy rates resulting from the growing importance of health maintenance organisations (HMOs).

HMOs have driven down healthcare spending in the US, mainly by encouraging out-patients. Since 1990, hospital occupancy has fallen to about 50 per cent, forcing many smaller healthcare centres to join larger regional or national groups. Occupancy at Tenet is about 37 per cent.

Mr Doug Sherlock, president of Sherlock Company, a mergers advisory firm specialising in healthcare, says Tenet should gain from stronger negotiating power in southern California, where it controls a number of hospitals.

Colgate bounces back with $156m

By Richard Tomkins in New York

Colgate-Palmolive, the US toothpaste and soap company, yesterday ended a string of profit downturns with a third-quarter net profit of $155.6m after preferred dividends, or $1.06 a share.

The figure was an increase of 37 per cent on the previous year's $113.6m, or 78 cents a share, before a restructuring charge. After the charge, the result a year ago was a loss of $255.6m.

However, the previous year's figures were hit by economic problems in Mexico, a big market for the company, and yesterday's result was a relatively modest sdvance on the $145.5m posted in the third quarter of 1994.

in last year's third quarter Colgate-Palmolive announced it was cutting 3,000 jobs and closing nearly a quarter of its factories to rednce costs and revive flagging profits.

Yesterday Mr Reuben Mark, cbairman and chief executive, said the resulting cut in overbeads had been one cause of the latest profit increase, along with strong volume growth and an increase in gross margins of more than one percentage point. Revenues rose 5 per cent to $2.2bn on the back of a 6 per increase in worldwide volumes.

Mr Mark said the company was encouraged by volume increases in its more mature markets of North America and Europe, where volumes rose 5 per cent and 4 per cent respectively. This outpaced market growth in both regions, he said, reflecting Colgate-Palmolive's flow of new products.

"With this momentum and our aggressive new products programme, Colgate is well positioned for a strong fourth quarter and 1997," Mr Mark said. The shares were up $¼ at $89⅝ in early New York trading.

Colgate-Palmolive has recently benefited in many world markets from the launch of a new toothpaste called Total, which is said to give long-lasting protection against the bactsria that cause gum disease and other dental problems. In the UK, tbe product has taken tbe company's market share to a record high.

Profits slide 11% at AT&T

By Richard Waters in New York

Flagging growth in its consumer telephone business, together with higher marketing costs, contributed to an 11 per cent fall in after-tax profits at AT&T during the quarter to the end of September.

The US company's difficulties in its core long-distance business reflect a loss of market sbare to smaller rivals. Sprint, the country's third-largest long-distance company, earlier this week reported a 14 per cent increase in revenues from long-distance calling.

Ths slowdown registered by AT&T pushed net income during the period down to $1.36bn, on revenues which rose 2.4 per cent to $13.2bn. Earnings per share fell 12 per cent, to 84 cents.

The figures, which do not include the results of discontinued operations such as NCR, were foreshadowed in an earnings warning three weeks ago.

Underlying the results was a sluggish, 2 per cent advance in revenues in AT&T's core wireline services, to $11.6bn. Calling volumes increased by 5 per cent from a year before, compared with the 21 per cent increase whicb bad been reported by Sprint.

The biggest US long distance carrier launched a counter-attack last month with a flat-rate charge of 15 cents a minute for all calls. Mr Richard Miller, chief financial officer, said yesterday that early interest in the offer had been promising.

At the same time, the company's profit margin was hit by a 21.6 per cent jump in its selling, general and administrative costs from a year before. AT&T attributed the leap to higher marketing costs, as well as the development of new on-line and local telephone services.

Overall costs were 5 per cent higher, contributing to a 2.2 percentage point decline in the company's operating profit margin, to 16.4 per cent.

AT&T recorded faster growth in some other parts of its business. Revenues from wireless telephone services increased nearly 18 per cent to $892m, while revenues from its communications products and services business rose 39 per cent to $388m.

NCR, the computer subsidiary which is due to be spun off by the end of this year, returned to profitability, at least at the operating level, during the third quarter, the company said. This is ahead of the deadline of the end of the year, it added.

Return to black lifts Apple stock

By Louise Kehoe in San Francisco

Shares in Apple Computer were up almost 4 per cent in early trading yesterday following a surprise return to profit unveiled after Wall Street closed on Wednesday.

The personal computer group said its $25m fourth-quarter profit – which came despite a 23 per cent drop in sales – signalled a turnround.

The company, which has struggled with heavy losses over the past year, added that it expected to achieve sustained profitability at a gross margin of 20 per cent or above by the second quarter of 1997.

The question was no longer one of the company's survival, said Mr Gil Amelio, chairman and chief executive. The challenge now would be "to extend our competitive leadership in key markets and to reclaim the mantle of industry pioneer and innovator".

Wall Street had been expecting Apple to report losses of about 30 cents a share. Instead it reported profits of 20 cents a share, against 48 cents a year ago. The shares were up $1 in early trading at 26⅞.

Net income was lifted by a one-time $28m pre-tax gain from adjustment of restructuring charges. It would otherwise have been 6 cents a share.

But revenues fell to $2.3bn, a fall of $682m from the fourth quarter a year ago. However, this was $142m up on the third quarter, as a result of stronger US sales, said Mr Fred Anderson, chief financial officer.

Gross margins for the fourth quarter were 22 per cent, compared with 18.5 per cent in the Juns quarter and 20.7 per cent a year ago.

Lower chip costs contributed about 2 percentage points to the gross margin improvement. However, memory chip prices are now edging up.

Gil Amelio: challenge is to extend leadership in key markets

Japanese retailers turn in mixed results

By Gwen Robinson in Tokyo

Half-year results from Japanese retailers indicate a divergence in the fortunes of department stores and supermarkets due to a patchy recovery in consumer spending and the effscts of tbe E-coli food poisoning scare in the summer.

Matsuzakaya department store reported its first increase in six years of half-year profits to August 31. Unconsolidated recurring profit soared 176.8 per cent to Y2.44bn ($21.8m), while net profit jumped 74 per cent to Y1.06bn. Sales rose 1.5 per cent to Y212.07bn. Matsuzakaya attributed the increase to brisk demand for clothing and small personal items, and to a 2.2 per cent reduction in sales and management costs. For the year to February, the company expects pre-tax profits to be 62.2 per cent up at Y5.5bn.

However, retailers in the mid to low-range bracket bave fared less well. Ito-Yokado, a leading supermarket operator, yesterday reported a 4.9 per cent year-on-year decline in unconsolidated recurring profit, to Y38.66bn for the first half. Total sales rose 1.4 per cent to Y773.53bn, due largely to the opening of three new outlets, but existing-store sales slipped about 2 per cent. Net profit fell 3.4 per cent to Y24.65bn, with an interim dividend unchanged at Y16 a share.

For the year, Ito-Yokado projects a recurring profit of Y80.5bn, up 5.1 per cent.

Meanwhile, Seven-Eleven Japan, the country's largest convenience store operator and a subsidiary of the Ito-Yokado group, outperformed its parent. Unconsolidated recurring profit for the March–August first half rose 5.6 per cent from a year earlier, to Y55.39bn. Overall sales rose 9.5 per cent to Y128.52bn, largely because of the opening of a record 266 new stores and strong sales.

Net profit rose 4 per cent to Y29.55bn, or Y70.97 a share, down from Y75.09 a year earlier. Seven-Eleven Japan will leave its interim dividend unchanged at Y17.50 for an annual total of Y35. For the full year, it expects pre-tax profits of Y104bn, up 6 per cent.

Another supermarket chain operator, Tokyu Store Chain, reported a 14.5 per cent rise in first-half unconsolidated recurring profit to Y2.61bn, resulting largely from strong sales at a new store in Kanagawa Prefecture, south of Tokyo, and marketing campaigns. Net profits rose 3.2 per cent to Y1.19bn on sales of Y146.15bn, up 7.8 per cent. The dividend was lifted to Y4.75 from Y4.5.

Canadian banks seek safety in consolidation

Alliances and mergers may help the industry counter US competition, writes **Bernard Simon**

Canadtan bankers should be beaming. Profits have surged from one quarterly record to another, and banks have been among the strongest performers on the Toronto Stock Exchange this year. The banks bava tightened their grip on the domestic financial services market by gobbling up securities firms and trust companies, and expanding into mutual funds and insurance.

Far from rejoicing, however, the chairmen of the big commercial banks are worried. Mr Matthew Barrett, Bank of Montreal chairman, echoed his colleagues when he warned recently that Canadian banks are failing to keep up with their foreign counterparts.

"The distinction between our home turf and foreign turf, between the domestic and international markets, is steadily being eroded," Mr Barrett said. He predicted that the new US "mega-banks" will sooner rather than later cast their eyes across tha border.

Non-bank financial institutions, sucb as Fidelity investments and GE Capital, already have a strong presence in Canada. "If Canadians wisb to retain a sound, stable and predominantly Canadian-owned banking industry, they have to accept that their big banks are going to become much larger," Mr Barrett added.

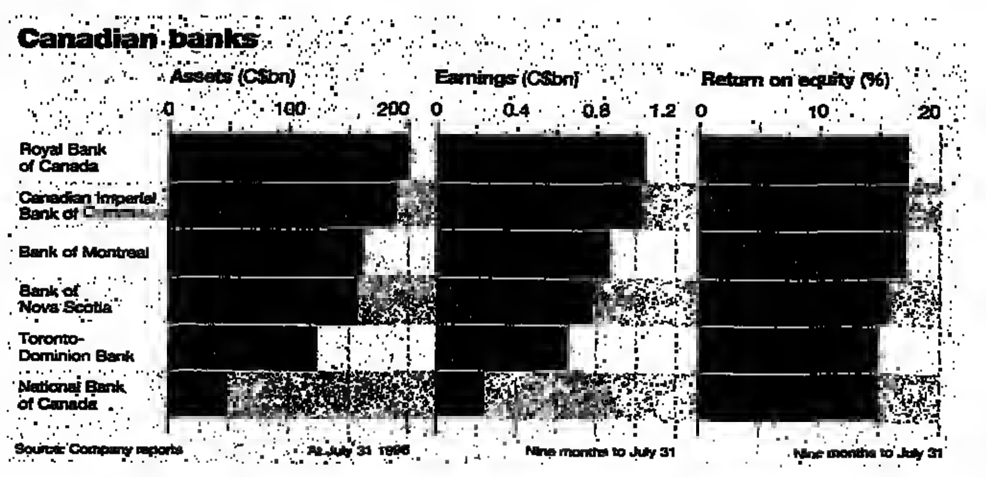
Canada's banks were for many years in the top rank of global banking. Royal Bank of Canada and Canadian Imperial Bank of Commerce, the two biggest measured by assets, were in the world's top 20 in the 1970s.

RBC, with assets of C$200bn (US$147.6bn), is now down in the 60s. The merger of Chase Manhattan and Cbemical Bank in the US has created a group two and a half times this size.

Canadian banks were also envied for their stable retail deposits, strong capital base and solid asset quality. But Mr Michael Goldberg, analyst at James Capel Canada, says they no longer have mnch to boast about in comparison with US institutions.

Few doubt that mergers and acquisitions would enable the banks to achieve substantial economies of scale and to cut costs by trimming their vast branch networks. The six banks between them have more than 7,000 branches with 175,000 employees.

However, Canadian banks have so far been isolated from the wave of mergers in other parts of the world. The Bank Act bars any single shareholder from acquiring more than 10 per cent of a Scbedule 1 chartered bank. No such curbs apply to foreign bank subsidiaries.



Furthermore, the banks have long assumed that tbe political climate rules out further mergers of the kind that created most of them in the first place.

Canadians have an ambivalent attitude toward their banks. They value them as depositories for their savings, whicb streamed into tbe banks when a number of trust companies faltered in the early 1990s.

But tbe banks are also viewed as too powerful, too profitable and out of touch with their customers. Those attitudes would no doubt barden with tha branch closures and job losses tbat mergers would bring.

For the time being, tbe banks have cbosen a less visible way of achieving, in Mr Goldberg's words, "consolidation without the political bassle".

Canadian Imperial Bank of Commerce and Bank of Nova Scotia agreed last summer to pool their information tecbnology functions, including computer centres, statement processing and telecommunications networks. CIBC and Scotiabank expect their partnership to cut 15 per cent from operating expenses of C$650m a year.

Three other banks – Royal, Bank of Montreal and Toronto-Dominion – have forged a similar, though less ambitious, alliance.

But the banks are pushing for more. Mr Barrett has proposed removing or modifying the 10 per cent ownership rule. Mr John Cleghorn, Royal Bank's chairman, has urged the authorities to allow further consolidation of financial services.

These suggestions will be considered by a task force on the future of Canadian financial services, bnt it is not expected to report until early 1998 and its recommendations could take several years to implement. In the meantime, the justification for the banks' concern may become increasingly apparent.

Foreign banks are pushing for changes that would allow them to operate as branches of their parent companies, rather than as separate subsidiaries. The present regulations restrict tbeir lending by limiting access to the parent's balance sheet.

Foreign banks found a sympathetic ear in Ottawa earlier this month when they asked parliament not to wait for tbe task force to complete its work before implementing their change of status.

These banks appear to bave convinced parliamentarians tbat reform would enable them to compete more vigorously with domestic banks to the benefit of Canadian consumers. They may also have handed Canadian banks another persuasive argument for relaxing ownership rules.

INTERNATIONAL NEWS DIGEST

Aerospace group boasts 'great year'

McDonnell Douglas continued its run of record quarterly results at a slower pace in the three months to the end of September, with a 1.6 per cent rise in net income, which brought the cumulative advance for the year to almost 12 per cent. Profits up from $192m to $195m yielded earnings per share 5 cents higher year-on-year, at 90 cents.

Boasting of a "great year", the company said a 99-day strike at its main St Louis plants which ended in mid-September was unlikely to affect results significantly. The best performance of the quarter, during which the operating profits rose 15 per cent to $339m, came from the military aircraft business, where operating margins topped 13 per cent. The commercial airliner business also improved, and operating income reached $23m after a $7m deficit last time and improved from $36m to $60m in the nine-month period.

Group revenues were unchanged at $3.3bn, leaving the nine-months figure down 8 per cent at $9.7bn. Earnings per share for the year to date rose 17 per cent, from $2.28 to $2.66. *Christopher Parkes, Los Angeles*

Bankers Trust beats forecasts

Bankers Trust yesterday announced stronger than expected third-quarter earnings per share of $1.98, nearly 30 cents above the average of analysts' estimates. This was better than both second-quarter earnings per share of $1.66 and the year-ago $1.71, although market conditions were less favourable during the summer months. Net income of $176m in the third quarter was up from $151m in the second quarter.

Profits tumbled and many top staff left the bank after a 1994 law suit alleged mis-selling of derivative instruments to Procter & Gamble, prompting a spate of similar complaints. The P&G case was settled out of court in May.

Risk management reported net income of $3m following a loss in the second quarter, owing to a $23m trading loss on the sharp copper price fall.

The surprise came from a jump in net income from trading and sales to $29m, from $17m in the second quarter. The company attributed this to "strong results from arbitrage transactions," which are traditionally viewed by analysts as volatile earnings. This may explain why Bankers Trust's share price benefited little from the better-than-expected results, rising only $⅜ to $83⅝. *Tracy Corrigan, New York*

Celulosa in Argentine pulp buy

Chile's Celulosa Arauco y Constitución has agreed to buy Argentina's Alto Paraná pulp maker for a total of $430m in cash and assumed debt. The deal will give Celulosa, controlled by Chile's Angelini group, a 94.64 per cent stake in Alto Paraná, Argentina's only pulp maker.

Chilean companies have made big investments in Argentina's electricity sector and, to a lesser extent, in its private pension funds and retail sector, but this marks the first important foray into Argentina's high-potential forestry industry. Argentine officials in the agriculture ministry believe the underdeveloped forestry sector will be a big growth area after the introduction of tax incentives to encourage tree planting. The incentives were based on those introduced more than a decade ago in Chile, which have stimulated a boom in that country's forestry industry.

Celulosa will pay $287m in cash for Alto Paraná. Of this amount, $58.8m will cover convertible bonds issued by the Argentine company, while the Chilean company will take on $140m worth of debt. Celulosa said it would be taking out a five-year syndicated loan, also led by JP Morgan, to cover the operation.

Last year, Alto Paraná made net profits of $29.7m on sales of $160m, but announced in March of that year that it would be unable to service $60m worth of 12 per cent notes that were about to fall due. *David Pilling, Buenos Aires*

Philadelphia SE chief quits

Mr Vincent Casella has resigned as chairman of the Philadelphia Stock Exchange, after an inquiry into his relationship with a technology company contracted to provide a new equity trading system for the exchange. Mr John Wallace, vice-chairman, becomes acting chairman.

Before his election as chairman, Mr Casella served on a committee involved in awarding the contract. It was given to Universal Trading Technologies Corporation, a subsidiary of Ashton Technology Group – a company in which Mr Casella had an existing investment.

The board also reaffirmed its commitment to the UTTC electronic trading system, due to start running on the exchange's equity floor in early 1997. *Tracy Corrigan, New York*

CM Telecom in market debut

Shares in CM Telecom international, a Hong Kong-based telecoms company, ended at a premium to the issue price after their trading debut on Singapore's stock market yesterday. The company, which listed in US dollars, bucked a recent trend of unsuccessful initial public offerings and closed at 33 cents – compared with its issue price of 32 cents – after 9.77m shares were traded. Institutional buyers bought the stock as long-term investments, analysts said. *James Kynge, Kuala Lumpur*

Reliance braced for fall

Reliance Industries, the Indian petrochemicals to textiles group, is expected today to post its first fall in net profits for more than 10 years. Analysts expect the company, controlled by the Ambani family, to report Rs4bn–Rs5.5bn ($112.1m-$154.2m) from Rs6.33bn last year. Reliance's first-half performance was depressed by falls in product prices of up to 30 per cent, minimal volume growth after delays to production capacity expansions, higher raw material costs, and the imposition of a new 12.9 per cent minimum corporate tax. Earnings are expected to rebound in 1997–98 as new production capacities come on stream. *Tony Tassell, Bombay*

Market weakness hits Avenor

Slumping prices and shipments of newsprint and pulp hit Avenor's profits hard in the third quarter. Avenor, one of North America's biggest integrated forest products groups, posted third-quarter net profits of C$1m, or two cents a share, down from C$90.1m, or $1.34 a share a year earlier, on sales of $550m against $731m. The third quarter was slightly better than the second quarter because pulp prices firmed slightly and manufacturing costs were pared. Avenor said newsprint inventories remained high and prices weak. *Robert Gibbens, Montreal*

China in Yn20bn bond issue

China will issue Yn20bn ($2.4bn) of treasury bonds next month to complete funding for its budget deficit for 1996. Target for the year is Yn186.2bn. The bonds will carry a seven-year maturity with interest paid annually.

In July, China introduced 10-year bonds which were snapped up by institutional investors with strong demand in the secondary market. The 10-year bond rose 10 basis points in the first week of trading. In line with China's attempts to expand "open market" operations, the latest series of bonds will be auctioned to approved institutions. Yield will be set according to demand.

Securities analysts expect the latest bond issue to be well received, but doubt it will perform as strongly in the market as the July issue. Chinese investors were attracted to the 10-year bond because of expectations of further interest rate cuts this year. *Tony Walker and Sophie Roell, Beijing*

Petronas lines up Vietnamese PVC holding

By James Kynge in Kuala Lumpur

Petroliam Nasional (Petronas), Malaysia's state oil and gas company, has signed a letter of intent to take a 40 per cent stake in a polyvinyl chloride (PVC) venture in Vietnam.

The stake would make the Malaysian company the majority shareholder in the plant, to be built near the Vung Tau area in southern Vietnam.

It will add a key downstream link in Petronas's already significant involvement in Vietnam's oil, gas and petroleum products sector.

The venture is expected to be finalised soon, industry sources said yesterday. The other partners in the project are Marubeni, the Japanese trading company, and two Vietnamese groups including Vietgas.

The plant, which is expected to be completed in 1999 and have about 100,000 tonnes of capacity, is expected to cost $109m.

The share that Petronas plans to take up was originally allotted to Oxychem, an affiliate of Occidental Petroleum of the US.

Oxychem pulled out because of fears of possible overcapacity in Vietnam after it learned that a second PVC plant had been approved by the authorities. PVC is a plastic resin used as a coating, and in clothing and other applications.

The feedstocks for the PVC plant may, initially at least, be imported from Petronas' facilities in Malaysia.

For Petronas, one of Malaysia's biggest and most profitable companies, the investment will bolster its considerable involvement and influence in Vietnam.

The company owns and operates two offshore exploration blocks near Vung Tau, and has recently made considerable commercial discoveries in them. It began oil production from another field, Dai Hung, in which it has a 20 per cent stake, in October 1994.

The company signed an agreement in March this year to take a stake in an oil refinery in Dung Quat, central Vietnam. The plant is expected to have capacity of 130,000 barrels a day. It also has a 49 per cent stake in a liquefied petroleum gas terminal and bottling plant with capacity of 20,000 tonnes a year in Hai Phong.

Pakistan gets to grips with $28bn debt load

Ms Benazir Bhutto, the Pakistani prime minister, had some carefully chosen words of comfort for the bankers and international institutions who have lent her country a total of $28bn.

"We have never defaulted on any of our external commitments. Nor will we," she said during a visit to London this month. It was a message designed to reassure, but the fact that such a statement was made reflected a degree of unease in the markets.

Pakistan's debt is "becoming more short-term and more expensive", says Ms Fatma Shah, economist with HSBC James Capel.

The country's debt repayments amounted to $3bn last year, according to Mr V. A. Jafarey, Ms Bhutto's economic adviser. This is a large sum for a country with exports of less than $8bn. Out of Pakistan's total foreign debt of $28bn, some $3.5bn is short-term.

The figure does not include some $8bn of dollar deposits by overseas investors in Pakistani banks, about half of which effectively counts as short-term debt and on which the government also relies for foreign exchange. The government has also been forced to focus on short-term borrowing as overall terms in the market have hardened.

The decision by the International Monetary Fund in June to withhold disbursements on its $600m loan to Pakistan because of its concerns over fiscal policy made foreign lenders reluctant to roll over commercial debt. With a heavy bunching of maturities in the September quarter – amounting, says Mr Jafarey, to more than $1bn – Pakistan was obliged to draw heavily on its foreign exchange reserves.

As a result, the reserves have nearly halved since the June budget, to $830m, equivalent to just five weeks of imports. With a further lump of debt repayments falling due in the current quarter, Pakistan faces a serious squeeze.

Admittedly, some banks are still willing to lend: a $100m, one-year oil import facility syndicated recently by ANZ, the Australian bank, was oversubscribed – but that is a rarity. Most lenders were simply repaid as their loans fell due. One US bank said it received back $250m in September without even being asked to refinance.

Pakistan is also trying to raise money by speeding up its privatisation programme. Mr Naveed Qamar, privatisation minister, this week announced plans to float 10 per cent of the Kot Addu power station for around $100m at end-December, and sell a further 10 per cent to National Power of the UK.

It is also seeking to raise up to $200m by securitising foreign exchange receipts of Pakistan Telecommunications (PTC) in a deal led by Citibank and ABN Amro.

As PTC handles more incoming than outgoing international calls, it has a regular flow of foreign exchange revenues from companies such as BT and AT&T. The securitisation deal allows PTC to borrow against this revenue, which then accrues to lenders.

The deal, which has been awarded an investment grade rating of BBB– by Standard and Poor's, the credit rating agency, may be attractive to investors worried about Pakistan country risk, but bankers say Pakistan's decision to mortgage its future revenues is an indication that it cannot easily raise large amounts of conventional finance.

Bankers generally agree that a new arrangement with the IMF is essential if maturing debt is to be refinanced, but they also believe Pakistan should seek to borrow at longer maturities if its credit rating improves on the back of an IMF deal.

Although it could have increased the latest $100m oil import facility and secured extra money to meet debt repayments, it eventually decided not to in the hope that terms, which included a margin of 1 percentage point over money market rates and participation fees of up to 22.5 basis points, would improve after a deal with the IMF.

Earlier this year it placed a $150m, five-year floating-rate note through Citibank, with a margin over money market rates of 2 percentage points.

But, says Mr Jafarey, to achieve even that margin required the inclusion of a put option allowing investors to redeem their notes every 18 months.

With Moody's threatening to downgrade Pakistan's country rating, now may not be the time to seek longer-term finance.

"We have a policy of extending the maturity of our debt," says Mr Jafarey. "We could ask the banks for another floating-rate note at a longer maturity, but obviously we'll have to wait. The IMF endorsement would be the beginning, but we'll have to wait till we've rebuilt the reserves and the trade balance has improved."

Peter Montagnon and Farhan Bokhari

Pakistan: Foreign debt

Total outstanding at end-June	$bn
1991	17.02
1992	19.23
1993	21.49
1994	23.7
1995	25.3
1996	28.0*

*Preliminary
Source: World Bank; Pakistan Gvt est

ASIA-PACIFIC NEWS DIGEST

Woodside moves to extend gas project

Woodside Petroleum, operator of the North West Shelf oil and gas project in Western Australia, has submitted a formal proposal to expand the facilities. Woodside said it held meetings this week with its Japanese gas and power utility customers, following "indications" in June that they would be interested in the A$6bn (US$4.7bn) expansion.

The proposal involves adding two production trains to the three already operating. This would add about 7m tonnes a year to existing sales capacity of 7.5m tonnes. "Subject to the requirements of the buyers, the expansion could be on stream in 2003," Woodside said. Its partners in the venture include Shell, BP and Chevron, as well as Australia's BHP and Japan Australia LNG, a venture between Mitsui and Mitsubishi. *Nikki Tait, Sydney*

Normandy merger setback

North Flinders Mines, one of the companies involved in the four-way merger plan initiated by Mr Robert Champion de Crespigny's Normandy group, said yesterday investors representing just under 74 per cent of its shares had accepted the Normandy terms. However, this leaves the bidder well short of the 90 per cent at which it can mop up minority holdings.

About 13 per cent of North Flinders is still held by France's Société Générale, which wants better terms, according to Normandy. "Société Générale have made it quite clear they're not going to sell – so when you say how confident am I that they will, I am pretty confident they won't," said Mr Anthony Palmer, North Flinders chairman. "If Société Générale don't accept or don't sell to a third party we can't get [the merger]," he said. North Flinders reported an after-tax profit of A$7.09m (US$5.6m) for the first quarter to end-September, little changed from A$7.9m a year ago. *Nikki Tait*

Foster's expands in S America

Foster's Brewing, the Melbourne-based drinks group, is to follow up its launch of Foster's Lager in Chile last month with a push into Argentina by the end of the year. Mr Richard Scully, senior vice-president of Foster's international, said South American beer consumption was showing "dramatic growth and we naturally want to establish the Foster's brand there". *Nikki Tait*

EUROPEAN NEWS DIGEST

Banco Popular up 6% in third term

Banco Popular, the Spanish banking group, posted third-quarter net attributable income up 6.2 per cent at Pta45.8bn ($354m). The improvement was in line with what Popular has reported over the year but analysts said the group, which is a net lender on the interbank market, could begin to show the strain from falling interest rates and increased competition in the domestic sector.

The pressure on margins was reflected in the net interest income of Pta133.7bn, which was 4.7 per cent up year-on-year, but down on the 7.8 per cent increase reported in the first quarter of this year and on the 6.8 per cent rise in the first half. The return on average equity stood at 20.73 per cent, down from 21.45 per cent a year earlier. *Tom Burns, Madrid*

Acer in talks with Olivetti

Acer, the Taiwanese electronics manufacturer, said yesterday it was in contact with Olivetti, fuelling speculation that it was going to buy the Italian group's personal computers business.

Mr Aldo Grech, managing director of Acer Italia, said the group has had, and still has, contacts with Olivetti. He refused to comment on whether the talks involved the PC unit, however. Sony and NEC have also been rumoured as potential bidders.

Olivetti said last night that the position had not changed since Mr Robert Colaninno, chief executive, indicated earlier this week that the group had found a partner but would not comment on the name. *Jane Martinson*

L'Oréal upbeat on growth

L'Oréal, the French cosmetics group, reported first half operating profits up 15 per cent to FFr3.4bn ($654m) and predicted continued growth for the rest of the year. Profit – before tax, employee profit-sharing and capital gains and losses – rose 12 per cent to FFr3.1bn.

The group also released consolidated sales figures for the first nine months, up 12 per cent to FFr44.6bn, or 8 per cent on a comparable basis. It said full 1996 net profit before capital gains and minority interests should be above 1995 levels, and both sales and pre-tax profits should be in line with the growth in sales for the first nine months. *Andrew Jack, Paris*

Bezeq agrees $150m loan

Bezeq, Israel's state-owned telecommunications company, said it had raised a $150m syndicated loan from a group of international banks aimed at improving the country's telecommunications network. It also confirmed it was in the final stages of approving a five-year plan to invest Shk10bn and streamline the company by cutting the workforce by 13 per cent to 8,250.

The move is to make Bezeq more attractive to foreign investors while the State of Israel is planning to reduce its current 77 per cent stake in the company to 55 per cent next year. *Avi Machlis, Jerusalem*

Iri minorities safeguarded

Iri, the Italian state holding company, has moved to protect minority shareholders in the privatisation of Seat, the yellow pages activity of Stet, the telecoms group controlled by IRI. Seat, believed to be worth more than L3,000bn ($1.95bn), is being spun off from Stet to raise cash for Iri before the telecoms group is itself privatised next year. Bidders for Iri's 61.27 per cent of Seat ordinary shares and 0.93 per cent of savings shares will also be obliged to make a public offer for the remaining ordinary and savings shares. *Robert Graham, Rome*

Telefónica sale adviser chosen

The Spanish government has selected Rothschild, the merchant bank, as adviser in the sale of its 21 per cent stake in Telefónica, the national telecoms operator. Scheduled for late January or early February, the disposal is valued at Pta469.1bn ($3.63bn) at current market prices and the equity offering, the largest ever made in Spain, will represent the full privatisation of Telefónica. *Tom Burns, Madrid*

FT/S&P World Indices

The committee which oversees the FT/S&P-Actuaries World Indices has announced how it will treat large share issues this autumn by two privatised European companies – Deutsche Telekom, the German telecommunications group, and Eni, the Italian energy group. Deutsche Telekom, which is making an initial public offering, will go into the indices on its second day of trading. Only its issued share capital will be included. This is expected to be about 19.8 per cent of the total, below the 25 per cent threshold for a stock to be given a 100 per cent index weighting. Eni's issue could increase its share capital in public hands from 15 per cent to about 35 per cent, but the committee has decided to include only its issued capital, when its weighting is adjusted on October 28, even if it nudges through the 25 per cent barrier. *Martin Dickson*

Higher costs cited for decline at Anglogold

By Mark Ashurst in Johannesburg

The rising trend in the quarterly earnings of South African gold producers petered out yesterday as Anglogold announced a dip in net profits for the September quarter.

Analysts said the industry's performance for the three months to September 30 was unlikely to better that of the previous period. Despite a further weakening of the rand and a buoyant gold price, earnings would fall short of the R501m ($132.2m) achieved by the principal mining groups in the June quarter.

The decline reflected higher working costs at most mines, due in part to annual wage rises of 9-10 per cent. It brings to an end a year-long overall trend of increased quarterly earnings.

Anglogold, the gold and uranium division of Anglo American, reported a 3 per cent fall in after-tax profit to R312.3m. Gold production decreased marginally to 52,437kg. The average gold price received was 4 per cent higher at R54,919 per kg.

Working costs were almost 6 per cent up at R2,257.1m, reflecting the pay increases. Mr Bobby Godsell, chairman and chief executive, said wages accounted for about half of overall working costs.

Capital expenditure increased by 11 per cent to R199.3m. Further capital was required to develop the "blue skies" projects and fund ultra-deep level mining of existing ore reserves. Mr Godsell said the group needed "appropriate investment vehicles" for these projects, but he had no plans to cancel management contracts with individual mines.

The group had forfeited some of the benefits of the weaker rand as a result of forward sales. But Mr Kelvin Williams, marketing director, defended the hedging strategy. The discount on the hedged price per kg had narrowed from R1,000 below spot price in the June quarter to about R100 below spot.

Forward sales were pegged to both the rand and dollar gold price, he said. The group had an "open hedging policy" which included spot-deferred contracts and put and call options "amenable to active management".

He denied suggestions that the gold price was influenced by forward aelling. "Price is not lineally determined by demand and supply. Numerous sources of above ground supply can trigger the market at times which cannot be forecast."

Gold production at Elandsrand was 6 per cent higher at 4,209kg; at Vaal Reefs it rose 5 per cent to 16,968kg. At Freegold, production dropped 4 per cent to 20,381 kg; Western Deeps reported the largest declina of 6 per cent to 7830kg.

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Iberia eyes airlines in UK and US as allies

By Tom Burns in Madrid

Iberia, the state-owned Spanish airline which was bailed out with fresh subsidies early this year, has put its sights on an alliance with British Airways and American Airlines in order to help it return to profitability.

Mr Xavier de Irala, who was appointed Iberia chairman in July, said yesterday an association with BA and the US carrier would be "a sure winner" but this was not the "only alternative" because "other negotiations were in progress and all options remain open".

The search for an ally in the airline industry has now become a priority for Iberia following its return to financial health following a Pta87bn ($672.7m) injection of state aid authorised by Brussels earlier this year.

Mr de Irala said the airline would post net profits of Pta1.5bn this year after sustaining annual losses aince 1988.

Mr de Irala said that Iberia could not face the future on its own. It needed allies to consolidate its European business and transatlantic routes. In return Iberia could bring to a future partnership its "dominant position" in Latin America.

"A strategic alliance is absolutely necessary if we are to consolidate our profitability and achieve the necessary critical mass," he said.

The search for a partner could involve a prospective European partner taking a shareholder stake in the Spanisb airline.

"What would be logical would be an initial commercial agreement that would in turn make possible the partner's purchase of equity (in Iberia). At a European level the ally would take a stake because we are looking at cost synergies. With a US partner we would be looking for price synergies," Mr de Irala said.

Iberia is facing strong competition in its domestic market. Private sector airlines entered the market following deregulation and created a price war. A decision by Iberia to slash internal air fares prompted protests last week it was using government subsidies unfairly.

Mr de Irala rejected the charge and said he did not not foresee problems with tha European Commission over unfair competition.

Finnish paper groups hit by falling prices

By Hugh Carnegy in Stockholm

Two of Finland's big pulp and paper producers – UPM-Kymmene and Metsä-Serla – yesterday reported hefty drops in profits in the first eight months of the year as they were hit by an industry-wide trend of falling prices and weak demand.

UPM-Kymmene, Europe's biggest forestry sector company, said pre-tax profits tumbled from FM4.6bn at the same stage last year to FM2.6bn ($566m). Earnings per share fell from FM14.51 to FM8.02.

The earnings collapse was even more dramatic at Metsä-Serla, which suffered from high one-time restructuring costs as well as the weak market. Pre-tax profits slid from FM1.3bn to FM336m, while earnings per share fell from FM6.29 to FM1.37. The company warned of a loss in the final four-month period, but said the group would remain in profit for the year.

However, the results were in line with market expectations. UPM-Kymmene shares rose initially before finishing the day down FM0.30 at FM93, while Metsä-Serla's most-traded B shares closed up FM0.60 at FM29.20.

Analysts said UPM-Kymmene, the product of a merger last year between United Paper Mills and Kymmene, had performed well under the circumstances.

UPM-Kymmene operating profits in the second tertial, at FM1.5bn, were down from FM3.3bn at the same stage last year and FM1bn lower than in the first four months. Turnover in the first eight months fell from FM35.6bn to FM33.8bn. Most of the blame was put on falling prices and demand for magazine paper, fine papers, sawn timber and pulp.

Newsprint profits rose due to higher prices. But UPM-Kymmene warned that newsprint prices and deliveries had weakened in the second four-month period as North American producers stepped up shipments to Europe. It warned that the trend was set to continue. Although prices for pulp, sawn timber and fine papers are moving up again, the outlook remained uncertain.

UPM-Kymmene said it expected profitability in the remainder of the year to stay at the levels of the second four-month period.

Metsä-Serla reported a significant increase in sales from FM8.6bn to FM9.5bn – but this was due to the effect of acquisitions. Operating profits fell from FM1.6bn to FM575m.

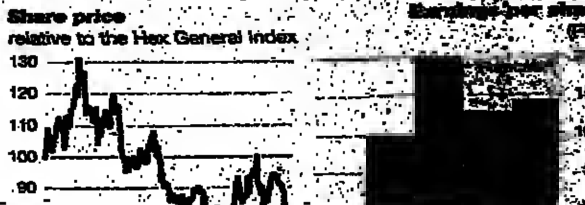
Metsä said it was restructuring to sharpen its focus on packaging and printing papers, as well as pulp. One-time restructuring costs would rednce profits over the year by FM300m, it said.

PROFILE

UPM-Kymmene

Market value: $5.42bn | Main listing: Helsinki

P/E	4.9
Gross yield	4.6%
Earnings per share	FM20.09
Current share price	FM93



Source: Company report, Datastream, Reuter, ABN Amro

Amag sold to Austrian buyers

By Eric Frey in Vienna

OIAG, the Austrian state holding company, yesterday agreed to sell the aluminium maker Auatria Metall (Amag) to a group led by Amag chairman Mr Klaus Hammerer and Constantia, a privately-beld Austrian concern.

In the country's last big industrial privatisation, OIAG selected the consortium's bid over competing offers from the German aluminium group Vereinigta Aluminiumwerke, a subsidiary of Vlag, and a joint offer by Bank Austria and Mr Herbert Liaunig, a prominent businessman.

Financial details were not disclosed, but it is known that the buyers would not put up any cash for Amag, which has been burdened by heavy debt since its near collapse in 1992.

Instead, Hammerer/Constantia insisted tbat OIAG inject Sch1.7bn ($157m) in fresb capital into Amag to cover part of the estimated net debt of at least Sch3bn.

This was more than the rivals wanted, but Hammerer/Constantia is understood to have improved its bid yesterday by including a Sch500m bank guarantee for outstanding receivables from a German bank.

After several years of heavy losses Amag posted a net profit of Sch95m last year on sales of Sch8.5bn.

The company would report an operating loss of Sch150m this year because of lower aluminium prices, Mr Hammerer said, but would dip into reserves to achieve break-even. Sales would decline to about Sch7bn because of asset disposals.

Sulzer Rüti cuts 950 jobs to stem mounting losses

By William Hall in Zurich

Sulzer Rüti, the world's biggest producer of textile weaving machinery, is cutting its workforce by 950, or nearly a third, and concentrating its production at a single plant in Switzerland in an effort to stem mounting losses caused by competition from low-cost Asian machinery producers.

The group, which has lost money in four of the last five years, will base all fntura production of weaving machinery in Zuchwil, about 50km west of Zurich. It will halt output at Rüti, a small town in eastern Switzerland, which has been associated with textile machinery since 1842 when Caspar Honneger began building the world-famous Honneger cotton-weaving looms. The town will continue to be the group's headquarters and research centre.

Sulzer Rüti has been trying to turn round its business since 1990, when it had a turnover of more than SFr1bn and employed 4,400. However, the combination of a strong Swiss franc, cheaper overseas competition and the increasing productivify of its own machines has led to a slump in demand for Sulzer's machines. Turnover dropped to SFr800m ($632m) last year and the group lost SFr34m. Mr Thomas Pfyl, of Bank Vontobel, expects losses to rise to SFr90m this year, inclnding a restructuring charge of about SFr40m.

The scale of Rüti's problems is reflected in the fact that it has had to announce large-scale redundancies for the first time. It said yesterday 600 jobs would go in Rüti – roughly half the workforce – and 300 at Zuchwil, the bigger of the two Swiss production plants.

Mr Helmut Pirchl, president of Sulzer Rüti, said that the company's 3,200 workforce was too big to support an annual turnover of around SFr600m a year. New orders had fallen by 30 per cent this year and he expected the market for weaving machinery to continue to decline until 2000. By the end of 1997, production capacity will be less than half 1990 levels.

Mr Pirchl said the measures were necessary to secure a rapid return to profitability in the face of ongoing market decline and low demand. However, he did not expect Sulzer Rüti to make money in 1997 and said that it would be "difficult" to make a profit hy 1998.

Borsa link may usher new era for Milan

Italians see chance to win back business from foreign exchanges

Homesick Italian stockbrokers in London will soon have a new way to keep in touch with the Bel Paese – a dedicated telematic link to the Milan stock exchange.

With the implementation this year of the European Union's investment services directive, the way is open for remote dealing on national stock exchanges. Brokers in Frankfurt and New York should be able to trade on the borsa as easily as Italian intermediaries who live and work round the corner from the exchange.

The Italian stock exchange council sees the new London "node" as one step in its campaign to promote direct dealing and win back business from foreign exchanges such as London'a SEAQ, on which many large Italian stocks are already traded.

The wind of competition will blow in both directions, sweeping away earlier rules which obliged foreigners to set up or buy a local securities house or SIM (Società di Intermediazione Mobiliare) if they wanted to trade on Italian equity markets, and offered a measure of protection to local intermediaries.

Mr Francesco Cesarini, chairman of the Italian stock exchange council since March, says the so-called Eurosim law – which implements the investment services directive in Italy – will usher in a new era for the Italian markets and those who use them.

"We are aware that as the Eurosim law throws ua directly into the international marketplace, we can't defend the quality of our market with rules," he said in a recent interview.

"In the medium term our market will be chosen by Italian and foreign investors only if it offers a level of costa and aervices – liquidity, size, price continuity – comparable to and if possible better than competing markets."

Italy has started at a disadvantage compared with larger and more aggressive exchanges. For a G7 economy, Italy's stock market is still comparatively small. In apite of recent flotations and privatisations, the list of larger stocks is still dominated by financial and holding companies – many of which own other quoted groups – and the lower reaches clogged by securities which hardly trade.

Events lika last year's abortive plan to merge Gemina, the investment group, with Ferruzzi Finanziaria, a holding company, or this autumn's management merry-go-round at Olivetti, the information technology group, have tainted the rest of the market with a reputation for lack of transparency and weak corporata governance.

Milan is one of the only completely automated European exchanges, but last month a rash of technical problems halted trading for a session, prompting an urgent review of the telematic system.

Navertheless, Mr Cesarini says tbe exchange is approaching liberalisation in better shape than ever. "If the Eurosim law had arrived in 1991, we would not necessarily have had the chance to make the most of this opportunity, becausa tha borsa was still fragmented, and there were various old systems mixed together," he says.

Since then, however, tha country's 10 stock exchanges have merged under one authority – the stock exchange council – while sharper supervision and stricter rules have ended the market's notoriety as a haven for insider traders.

Francesco Cesarini: exchange is in better shape than ever

Trading in equities was fully automated in 1994. Five-day cash aettlement of all stocks has reduced speculation. New companies are coming to the market – Mr Cesarini expects about 20 new listings this year – and the exchange is now studying ways to encourage trading in illiquid stocks.

The Eurosim law will also tranaform the stock exchange into a self-regulating joint stock company, owned by financial intermediaries, thus doing away with old-style management and regulation of the markets by the public sector.

To the irritation of some smaller SIMs, a group of the largest intermediaries – dominated by Italian banks – has already established a holding company, called Sint, which intends to take a majority stake in the newly privatised exchange before dissolving itself once the task of reorganisation is accomplishad in December 1998. Some traditional brokers see this as an attempt by the banks – granted direct access to the stock market for the first time under tha new laws – to control the running of the markets. Mr Francesco Aletti Montano, managing director of Aletti & C, a well-established Milan SIM, says the treasury, which is co-ordinating the privatisation, should set an upper limit on individual shareholdings and open the capital of the new company to all-comers. "We would prafer everyone to have the opportunity to buy ahares at the outset," he says.

The treasury will take the final decision about how to privatise the stock exchange and Mr Mario Draghi, treasury director-general, said this week that it would not grant a "preferential role to any type of intermediary".

Mr Cesarini, himself chairman of Banca Popolare di Milano, one of Italy's largest banks, says traditional brokera will not lose ont. Instead, he believes the SIMs will remain the market specialists, working mainly on behalf of large professional investors.

On the other hand, banks will handle the flotation of large companies on the market and encourage their retail clients to invest their extensive savings. Sint, he says, is simply "a sort of steering committee" for the next two years of transition.

Mr Cesarini also plays down the possibility that the mainly Italian intermediaries who will own the newly privatised exchange may slow the pace of liberalisation if they realise their own interests are being damaged by aggressive outside competitors. "If trading is carried out more by foreign intermediaries, that's obviously a slice taken away from the Italians, but these undesirable side-effects are completely overshadowed by the priority to grow the whole market," he says.

Andrew Hill

Laird may reduce German workforce

By Tim Burt

Laird Group, the engineering components and building products manufacturer, is considering cutting its workforce in Germany by up to 40 per cent as part of a reorganisation of its automotive activities.

The company, a large international supplier of vehicle sealing systems, has drawn up plans to outsource a growing proportion of manufacturing in Germany, where it produces almost 50 per cent of its automotive components.

Under the plans, Laird's German workforce could fall from 2,500 to 1,500 over the next two to three years. Mr John Gardiner, chairman, said: "There is a tremendous change going on in German industry and Laird will not be exempt from that."

The phased programme, involving moving some production to lower cost plants in Spain and the Czech Republic, is not expected to lead to large one-off provisions. Laird blamed the need to make redundancies on high labour costs. According to company officials, those costs are up to DM40 ($27) an hour in Germany, compared with DM25 an hour in France, DM15 in Spain and DM4 in the Czech Republic.

Concerns over German manufacturing costs have also been raised by other UK engineering groups.

Babcock International said it had cut its German workforce by almost 40 per cent to 440 in the past 12 months.

Mr Nick Salmon, chief executive, said yesterday: "We will still manufacture high value-added products in Germany, but basic activities can be done more cheaply elsewhere."

Laird, meanwhile, hinted at a more aggressive investment strategy in other locations. The company, which is expected to open its first North American automotive components plant next year, said growing demand from US carmakers could force it to build another plant there before the end of the decade.

Germans warn T&N on takeover

By Tim Burt

Kolbenschmidt, the German pistons manufacturer being pursued by T&N, has warned the UK engineering group that it was unlikely ever to win cartel approval for its proposed takeover.

The company, one of Europe's leading suppliers of automotive pistons and friction bearings, said T&N's continued interest was hampering its expansion plans.

T&N has secured options over 49.99 per cent of Kolbenschmidt – held on its behalf by Commerzbank – for DM282.6m ($191.6m). But the cartel office in Berlin has so far refused to sanction the deal.

"It is a very unhelpful situation," according to Kolbenschmidt. "We want to grow overseas but our expansion has been blocked by T&N's interest."

T&N, which has held the options for more than two years, yesterday rejected that suggestion.

So far, the cartel office has blocked the takeover on the grounds that it would make Kolbenschmidt a captive customer of Goetze, T&N's German piston ring manufacturer, and create unfair competition in the piston components market.

This week Kolbenschmidt predicted that T&N'e appeal against that decision – due to be heard next February – would fail.

Exceptionals leave Albert Fisher in loss

By David Blackwell

Goodwill write-backs at Albert Fisher, the fresh food supplier that last week announced the £73.5m ($114.7m) disposal of its North American distribution business, helped push the group £110.9m into the red in the year to August. Profits last time were £31.1m.

Exceptional costs, including the North American disposal and the withdrawal earlier in the year from wholesale distribution in Germany, totalled £151m. Almost £129m was for goodwill write-backs.

Operating profits rose 24 per cent, from £36.3m to £45m. Sales were 12 per cent ahead at £1.24bn.

"By any definition this has been a year of considerable progress," said Mr Stephen Walls, chairman, adding the group was "now seeing strong sustained growth from its core operations".

Mr Walls said in the past 3¼ years, Albert Fisher had disposed of businesses that accounted for 60 per cent of its turnover. Now that 70 per cent of the revenue base was in operations where value could be added, the challenge was to build shareholder value through organic growth.

Next month, Mr Neil England, currently Moscow-based vice president of Mars, takes up the new post of chief executive. He will be expected to apply his sales and marketing skills to the four remaining divisions – produce, seafood, processed food in Europe and processed produce in the US.

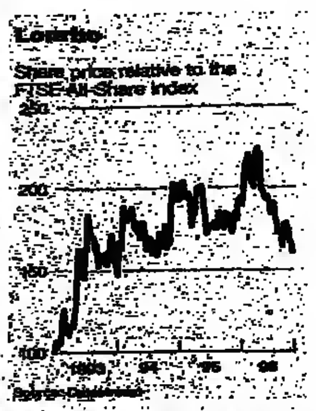
The best performing division was European food processing. Operating profits jumped to £19.4m (£12.1m) on sales up from £246m to £271m. Frozen foods and sauces performed well.

European produce profits eased to £12.7m (£13.4m) on sales 5 per cent ahead to £890m. The remaining North American produce division lifted profits to £5.2m (£3.3m).

Weather-related problems held profits at the seafood division to £7.7m (£7.5m).

LEX COMMENT

Lonrho



It is like the good old days at Lonrho, with whispers over potential buyers, confusion over future structure and a steadily declining share price. Since Mr Dieter Bock, Lonrho's chief executive, secured a profitable exit for his investment with a sale option to Anglo American, Lonrho shares have fallen 23 per cent. Mr Bock tells a good tale of delivering value through break-up and disposals, but his willingness to secure his own exit suggested to cynics there would be little value left for anyone else. That is probably untrue. The sale of Lonrho's hotels should bring almost £700m. With the likely sale of its UK car business, Lonrho would be left with less than £100m of debt, a vast improvement given Lonrho's poor cashflow. It should then push ahead with a demerger of its African trading arm – preferable to flotation, since if there is value to be unlocked it should go to existing shareholders – leaving investors with two pieces of paper: mining and trading.

The mining company has fallen in value with gold and platinum prices, but it holds attractive assets. Rumours that Anglo may not take up its Lonrho option seem unlikely; but even that could herald a bid from elsewhere. The African trading business offers emerging market appeal, albeit diluted by weak cashflow. It is hard to compute a break-up value that is not 20 per cent higher than the share price. But, given the pace of the restructuring programme, it could take a long time to get there.

Ugland in $200m deal

Dealings in shares of Ugland International Holdings, a ship-owning and management group, were suspended yesterday after it unveiled a deal worth up to $200m to acquire the Ugland family's vehicle carrier interests.

The size of the transaction classifies it as a reverse takeover, prompting UIH to seek a temporary suspension. Trading was halted at 69p.

UIH is to acquire the family's 50 per stake in Höegh-Ugland Anto Lines (Hual) for an initial $160m, followed by up to $40m.

Sydney may get M&S knickers

By Peggy Hollinger

Marks and Spencer's famous knickers could go on sale in Sydney next year, as Britain's largest clothing retailer prepares to launch a franchise chain in Australia.

Tbe company announced yesterday that it would start looking for potential franchise partners in Australia early in 1997. "It is another significant step in our ambition to be a major global retailer," sald Mr Keith Oates, deputy cbairman.

M&S bas recently stepped np its international ambitions, announcing that it plans to spend £380m ($593m) on expansion abroad in the next three years.

While it hae already announced aggressive opening programmes in Europe – planning 25 stores in Germany – it also has plans for south-east Asia, where much of the expansion will be done via franchise agreements.

In September, the group clinched a franchise arrangement in South Korea, and it is known to have ambitions in China.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Albert Fisher	Yr to Aug 31	1,698	(1,650)	110.9L♠	(31.1)	17.07L	(2.9)	1.9	Jan 6	1.9	3.75	3.75
Alliance Res $	Yr to Apr 30★	3.69	(1.48)	3.66L♠	(16.1L♠)	0.8L†	(8.1L)	-	-	-	-	-
Berry Birch Noble	6 mths to July 31	3.99	(3.34)	0.355	(0.48L)	4.5	(1.2L)	1	Dec 2	nil	-	0.9
Bridgend	6 mths to June 30	6.91	(8.12)	0.075L	(0.094L)	0.3L	(0.3L)	0.1	Jan 3	0.1	-	0.2
Dragon Oil $	6 mths to June 30	1.58	(2.58)	0.16♥	(1.21L♠)	0.01L	(0.06L)	-	-	-	-	-
Gleeson (MJ)	Yr to June 30	198.3	(191.8)	8.73	(8.45)	57.45	(52.66)	12.31	Jan 8	11.45	16.08	15
MY	Yr to Aug 31	86.8	(77.1)	12.6	(9.12)	6.67†	(6.33)	1.7	Jan 27	1.4	2.4	2
Revs Piccadilly Φ	6 mths to Aug 25	1.84	(1.58)	0.141L	(0.202L)	0.58L†	(1.34L)	-	-	-	-	-
WEW	Yr to Aug 3	115.7	(122.1)	3.05L♠	(4.06)	2.2L	(1.65)	nil	-	0.35	nil	0.7
Wilmington	6 mths to Aug 31	15.6	(12.2)	2.06	(1.28)	1.91†	(1.54)	-	-	-	-	0.25

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aberforth Split	Yr to June 30	-	(-)	-	(-)	-	(-)	2.25ǂ	Dec 6	2.1	-	9.2
Edinburgh Dragon	Yr to Aug 31	104.47	(106.84)	0.152	(0.117)	0.057	(0.044)	nil	-	nil	nil	nil

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. $US currency. ΦAim stock. §USM stock. ǂFirst interim. ★Comparatives restated.

The changing of the guard

Raymond Snoddy interviews Pearson's next chief executive

Mrs Marjorie Scardino, named yesterday as the next chief executive of Pearson, is not the sort of person the City wanted to replace Mr Frank Barlow, the current managing director, when he retires.

Analysts were sure that what was needed was someone like Mr Gerry Robinson of Granada or Lord Hollick of United News & Media – a big hitter from outside who could go in and make the sort of changes that many of them say are necessary for Pearson, which publishes the Financial Times: more focus, and more effort to unlock the potential of distinguished brands.

Ashley Ashwood

Not an insider – Marjorie Scardino is joining 'the boys' club'

They see Mrs Scardino – believed to be the first female chief executive of a FTSE 100 company – as someone who has run a small outpost of the Pearson empire, the weekly Economist magazine: in short, a "quasi-insider".

The shares were knocked down 15p at one stage after yesterday morning's announcement and finished the day down 11½p at 676½p.

Mrs Scardino, an American, a lawyer and former journalist who transformed the circulation of The Economist in the US understands the reaction of the City.

"I am completely unknown to any of these people and my track record at The Economist is also unknown," she says, pointing to the tradition of anonymity at the magazine which meant that in her 12 years there she had never given an interview until yesterday.

"My plea to the City has got to be just watch it and see. If the accomplishments don't come, then any conclusions you draw from this are fair. But give us some time to make the accomplishments." She will take over as chief executive at the end of this year. Her appointment marks the changing of the guard at Pearson, the handing over to a new generation of executives.

Mrs Scardino is 49 and she will inherit three recently appointed board members of a similar age – Mr David Bell, who is chairman of the Financial Times and in charge of Pearson's information activities, Mr John Makinson, finance director, and Mr Greg Dyke, who runs Pearson's television companies. All three were once considered candidates for the top job and Mrs Scardino's diplomatic skills may now be necessary.

In particular, Mr Dyke, a multi-millionaire from his days at London Weekend Television, has made little secret of his desire for Pearson to float off its television interests with him in charge.

Mrs Scardino vehemently contests the perception that a Pearson insider has been appointed. The Economist, 50 per cent owned by Pearson, values its separateness and independence. "I have all the disadvantages of an outsider and none of the advantages. I know everyone thinks this [Pearson] is a boys' club. At least I'm not a boy; I haven't been to Eton and I don't speak English properly," laughs Mrs Scardino, a tall imposing Texan. With her husband Albert, a journalist, she founded The Georgia Gazette newspaper which won a Pulitzer prize but was not a commercial success. "You learn more from failure than success," she says.

The new Pearson chief executive is blunt about the state of the company.

"The performance is not nearly what I want from a company I was involved with. It has huge room for improvement. Its profit performance has clearly been inadequate and there's a lot more movement to be had in that," she says. Every morning for the past two weeks in her shower she has been asking herself what sort of company Pearson should be, and what what sort of businesses it should be in.

She does not yet have answers but they are likely to be radical. She has warned the board of Pearson she will turn the place upside down if that is what she deems necessary.

"I think that is the reason they chose me. I'm unconventional. I think I'm pretty brave about things like that." She emphasises that improving profit performance will be at the top of her list of priorities, but that will go hand-in-hand with deciding what the correct level of focus should be.

هكذا من الأصل

AYRSHIRE

Feeding strong roots

Business leaders aim to attract more inward investment to this south-west region of Scotland, writes James Buxton

Ayrshire is a place that still makes things, says Mr David Macdonald. "We have 400,000 people, which is 7.8 per cent of Scotland's population, but we produce no less than 15 per cent of its manufacturing output."

To many people Ayrshire is best known for famous golf courses such as Turnberry and Troon, for its rolling green countryside, for its moist and relatively warm climate, for its long coastline looking out on the Firth of Clyde, and for being the birthplace of the poet Robert Burns.

In economic terms those are all valuable assets, underpinning a tourist industry worth more than £200m a year and providing a good quality of life for many of Ayrshire's inhabitants.

But Enterprise Ayrshire, the local enterprise company of which Mr Macdonald is chief executive, is charged with improving the economy, and that involves focusing on manufacturing. Important manufacturers in the area make pharmaceuticals, vehicles, textiles, computers, whisky and aerospace products.

Products from Ayrshire include household names such as Johnny Walker, one of the world's best selling whiskies, blended in Kilmarnock; computers from the US company Digital made at Ayr and Irvine; and Jetstream aircraft, built by British Aerospace at Prestwick.

Although several of Ayrshire's leading manufacturers are offshoots of foreign-owned companies such as Roche and Nestlé of Switzerland, and Volvo of Sweden, others are the plants of UK companies such as SmithKline Beecham, the pharmaceuticals group, Imperial Chemical Industries and Fullarton Computer Industries, a home-grown contract manufacturer for the computer sector which belongs to Laird Group *(see page III)*.

Mr Macdonald does not accept the description of Ayrshire as a branch plant economy. "I'm not sure branch plants are a local issue any more. Isn't this sort of thing happening everywhere in the world? Each of these plants has very simply got to be the best at what it does, wherever it is."

Even so, Mr Bill Miller, a leading Ayrshire businessman who founded Prestwick Circuits, a printed circuit board maker, is convinced that the most effective companies in Ayrshire are often ones based locally. "You've got to have people with fire in their bellies determined to do things for the local community," he says.

In addition to Fullarton, which now employs about 2,000 people at Irvine, he points to PIK Ltd, a company set up by local businessmen (including Mr Miller) which bought Prestwick airport in 1992 and is expanding its business. Scheduled flights now operate to London Stansted, Dublin and Belfast, and charter holiday traffic is growing rapidly *(see page II)*.

Enterprise Ayrshire was set up in 1991. Its objectives range from making Ayrshire attractive for inward investment, to strengthening locally headquartered companies through advice and training, especially in the textile and engineering sectors where there are several medium-sized companies.

A Skillseeker and Culzean castle: manufacturing and tourism drive the Ayrshire economy

Although Ayrshire contains prosperous towns, such as Ayr and Troon, its average level of unemployment is more than 12 per cent, four percentage points above the Scottish average, and there are pockets of very high unemployment, especially among men.

The Cumnock and Sanquhar area in the south where the deep coal mines have closed has one of the highest rates of unemployment in the UK.

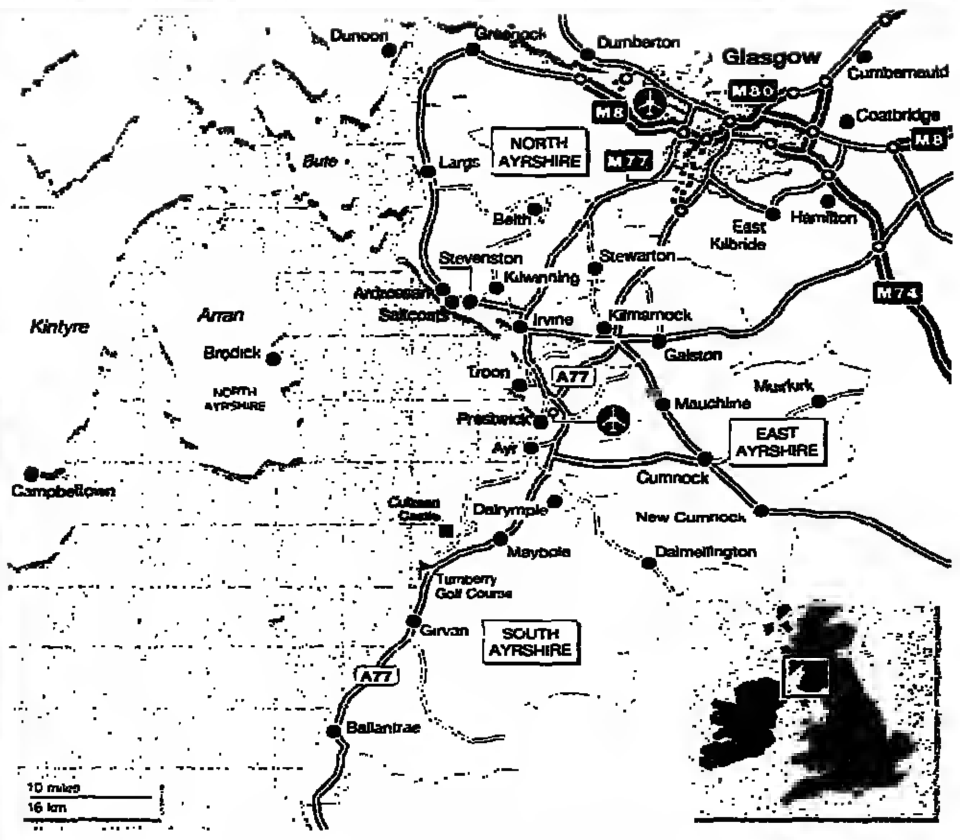
Along the coast, Irvine, whose new town status ends in December, and the adjoining towns of Ardrossan, Saltcoats and Stevenston have high unemployment and pockets of deprivation, because of the rundown of the ICI explosives plant at Ardeer.

While unemployment is acknowledged by Enterprise Ayrshire to be one of Ayrshire's problems, the agency also lists the absence of competitive sites for modern business as a problem to be overcome. Its business plan draws attention to Ayrshire's 2m sq ft of industrial space but much of this is of poor quality and unsuitable for investment.

However a 30 acre business park is now being developed at Rowallan outside Kilmarnock, and plans have been approved for upgrading Riverside business park at Irvine. Shaw Farm estate at Prestwick is also being developed.

Ayrshire is a geographical expression rather than a local government unit. Although many people in the former county would have liked Ayrshire to have become a single tier council in the 1994 reorganisation of Scottish local government, the government decided to create three unitary authorities, for North Ayrshire, East Ayrshire and South Ayrshire.

The new authorities at least contain the word Ayrshire in their names which their predecessors did not, and although they each have their own agendas for economic development they co-operate with each other.



The chairmen of all three councils are on the board of Enterprise Ayrshire, and each council participates in the Ayrshire Location Service whose remit is to "secure location decisions for the benefit of Ayrshire".

This means encouraging companies which are considering locating in the area, and helping those already in Ayrshire to put down stronger roots. The work of finding companies from outside Scotland to come to Ayrshire is the responsibility of Locate in Scotland, based in Glasgow.

In East Ayrshire the council, based at Kilmarnock, has made the "drive for jobs and economic development" its top priority, and recently established the East Ayrshire Business Partnership with the private sector to assist small businesses.

South Ayrshire, housed in the splendid former county buildings in the centre of Ayr, has taken the most radical approach of the three councils to its own structure, setting up only seven departments to administer all its services.

"We want to change the face of local government in this area," says Mr Graham Thorley, chief executive. "It has a long way to go to win back the trust of the public. We are in a race to catch up with the best practices of the private sector."

At North Ayrshire, based at Irvine, optimism is blighted by what Mr Sam Gooding, chairman of infrastructure and environment services, calls the "silent closure" of the ICI complex at Ardeer. The number of people employed at Ardeer, which still makes explosives, has dropped from 4,500 in 1980 to between 400 and 450 today, and was as high as 12,000 in 1950.

Mrs Ann Hopkins, North Ayrshire business development manager, says: "About as many jobs have gone here as were lost with the rundown of the Ravenscraig steel plant in Lanarkshire, but we've had nothing like the level of government assistance that Lanarkshire's received."

Mr Gooding says Irvine new town "was supposed to be the saviour of North Ayrshire. But its population only grew to a quarter of that projected". The energies of leading people in Ayrshire are now focused on two objectives. First, in a move which is aimed at boosting Prestwick airport, they are campaigning with leading Scottish business organisations to persuade the government to relax the international rules governing air freight.

At the moment aircraft from the US are not allowed to pick up cargo at Prestwick and fly it on to Europe, which means that manufacturers in Scotland lose expensive time sending goods via London Heathrow. "We are trying to get the government to see this as an industrial and not a transport issue," says Mr Graham Shaw of Enterprise Ayrshire.

A longer term concern are the roads. The construction of the M77 motorway through the southern suburbs of Glasgow is progressing well and when complete next year will greatly speed up journey times to Ayrshire.

But roads to the east linking Ayrshire with the M74 north-south motorway are notoriously slow, and there are few plans to upgrade them. The Scottish Office is not making the issue a priority and people in Ayrshire are divided as to whether the main link should be the A70 or the A71.

If Ayrshire is to have a communications infrastructure suitable for the 21st century, as Enterprise Ayrshire wants, big improvements are essential.

Economy: by James Buxton

Investment in the air

Electronics and aerospace industries underpin the local economy

A recent announcement that Rohr, a US aerospsce components group, is to set up an £8.7m repair and service facility at Prestwick could easily have been ignored amid the stream of inward investment successes which Scotland has achieved lately.

But it was significant not just because it was a rare example of an inward investment that had nothing to do with Scotland's electronics industry, but because it emphasised that Ayrshire has a significant foothold in the aerospace industry.

Rohr is a California-based company which makes nacelles and pylons for aero-engines. It will join British Aerospace and the US aero-engine service company Greenwich Caledonian at plants close to Prestwick airport, and it expects to create 200 jobs in the next five years. In the longer term Enterprise Ayrshire hopes Prestwick might develop further as a centre for airframe maintenance.

But though CWW Logistics, a transport company, recently announced it was building a £1.4m freight handling facility at the airport, it is not all good news at Prestwick. Employment has fallen noticeably at the British Aerospace plant, where 2,500 people were working in 1993.

Since then, the management of BAe Jetstream has moved to Toulouse as a result of a joint venture in regional aircraft with Aerospatiale of France and Alenia of Italy. Sales of the Jetstream 41 regional turbo prop aircraft, which were buoyant in 1994, have slumped.

Annual production has been cut from 30 to fewer than 20 aircraft, while the Jetstream 61 model has been scrapped. The plant is now divided between BAe Jetstream, which assembles aircraft, and BAe Aerostructures which makes aerostructure parts both for Jetstream and for other aircraft. Recently Jetstream has cut its workforce by 250 to 711 and Aerostructures by 300 to 913, making 1,624 in all.

There is also uncertainty over the Civil Aviation Authority's air traffic control centre at Prestwick, where 650 people are employed controlling the airspace of northern Britain and much of the north Atlantic.

A £230m project to upgrade the Prestwick control centre following the recent construction of a new centre at Swanwick near Southampton is under review, and trade unions at Prestwick fear that if the CAA decided to concentrate most air traffic control at Southampton, Prestwick would be downgraded, with jobs likely to be lost.

Irvine is the location of Ayrshire's vehicle industry

Although Ayrshire is not in the heart of Silicon Glen it has electronics plants employing about 6,500 people. The largest is Digital Equipment of the US which employs 1,350 people at Ayr and a further 450 at Irvine, the latter being the location of its personal computer plant. Digital's Ayrshire plants have barely been affected by the recent wave of cutbacks which has hit other parts of the company.

Apart from Fullarton Computer Industries (see page III), Ayrshire is also the home of Prestwick Circuits, a quoted company which produces printed circuit boards at Ayr and Irvine, and of SCI, a US-owned contract manufacturer, based at Irvine.

Irvine is also the location of Ayrshire's vehicle industry, with a large plant belonging to Volvo which assembles the chassis of a large proportion of the buses on British roads, as well as those of heavy trucks. Volvo employs about 500 people at Irvine.

Although the ICI plant at Ardeer is gradually running down, there are two major pharmaceutical plants in Ayrshire: SmithKline Beecham employs 750 people making antibiotics and medicinal products in bulk at Irvine; further north, at Dalry, the Swiss company Roche recently announced a big investment in upgrading its plant making vitamin C. Roche employs 680 people at Dalry.

Elsewhere in North Ayrshire, the waterfront at Ardrossan is to be developed: Clydeport, the privatised port operator, is investing £12.5m in a yacht marina and housing project.

Down the coast at Ardeer Point, the Millennium Commission has offered £5m for a permanent exhibition on the theme of invention, linked to Alfred Nobel, the inventor of dynamite who established what is now the ICI plant. Matching funding for the £10m scheme will have to be raised.

Over in East Ayrshire, the Austrian company Egger wants to build a plant making chipboard in the depressed southeastern part of Ayrshire. Its subsidiary Eltimate has applied for planning permission to build a £50m plant near the site of the Barony colliery at Auchinleck.

Egger, which also has a plant at Hexham in Northumberland, says Auchinleck is ideal for an easy supply of wood from the forests of south-west Scotland. The plant would employ about 120 people and produce 270,000 tonnes of chipboard a year for the furniture industry.

However an earlier application to place the plant in Irvine, close to the Finnish company Kymmene's large paper mill, was turned down after strong objections from the local community which claimed it would cause pollution and spoil scenery near the coast.

Both Enterprise Ayrshire and Locate in Scotland favour the Auchinleck site, while East Ayrshire council points out that the plant would create employment and generate spending in an area which contains patches of male unemployment of over 30 per cent. However it says the plant's environmental impact will be closely studied before planning permission can be granted.

East Ayrshire should also benefit from the fact that a site near Kilmarnock has been chosen for Scotland's newest prison, involving an investment of £60m and the creation of about 350 long-term jobs, as well as a large number of construction jobs.

East Ayrshire council is seeking Scottish Office funding for a regeneration strategy for areas with the highest unemployment near Cumnock and Sanquhar. It also expects to benefit from the upgrading of parts of the A77 Glasgow-Ayr road to motorway, which it believes will improve Ayrshire's accessibility, while a £7m project to improve the centre of Kilmarnock, which had been losing shopping and other business to Ayr has been completed.

Mr Stephen Chorley, director of development at East Ayrshire council, says: "We have got the basis for being seriously competitive with other parts of Scotland."

Prestwick airport is enjoying a revival, but businesses are lobbying for a change in air freight rules

Air traffic: by James Buxton

Prestwick takes off again

Aggressive marketing by operator PIK is revitalising Ayrshire's airport

No one who visited Prestwick airport three or four years ago could fail to be impressed by what is going on there now. In 1992 the large passenger terminal was embarrassingly empty – fewer than three dozen passengers passed through it in the whole of that year, and they had been diverted. The situation was only slightly better in 1993.

Now, although there are periods in the day when the passenger terminal is fairly quiet, usually there are clusters of travellers to be seen checking in. And although airfreight business never deserted Prestwick, there are now noticeably more wide-bodied cargo aircraft passing through.

Prestwick airport is one of Ayrshire's recent success stories. It used to be a source of controversy as local politicians fought to retain the special legal status thst required transatlantic flights from Scotland to use it.

Now the people of Ayrshire, most of whom are unshakeable in their belief that Prestwick is one of the finest airports in the world, have had to put their money and their energy into making it work and succeeding.

The decline of Prestwick began in the 1980s and accelerated in 1990 when the government reluctantly abolished its special status. Passenger services immediately migrated to Glasgow airport, seen by travellers as more convenient than Prestwick, which is 30 miles south-west of Glasgow. That counted for more than the fsct that Prestwick is almost never closed by bad weather.

Then in 1992 BAA (British Airports Authority) sold Prestwick to PIK Ltd, a consortium of businessmen and local authorities chaired by Lord Younger of Prestwick, the former defence secretary and local MP. Later tha councils were obliged by tha government to sell their stakes.

PIK takes an unusual approach to running airports. Unlike many airport operators it does not subcontract any services: at Prestwick all are provided by the airport company, from ground handling to duty free sales. The 313 airport staff are expected to be flexible and do more than one job.

It also takes an aggressive approach to marketing. "A lot of airports just sit back and largely let the market deliver business to them," says Mr Hugh Lang, PIK's managing director. "We can't afford to do thet; we go out and get it."

PIK (the name comes from the airport's international identification sign) began with an effort to win back charter and scheduled passenger flights. It remedied the absurdity that although the railway from Glasgow runs little more than 100 yards from the airport terminal, trains did not stop there. In September 1994, Strathclyde regional council and ScotRail opened a new station, connected to the terminal by a covered walkway.

Through ScotRail, PIK offers free rail travel to the airport from any station in Scotland and a £5 flat fare from Prestwick to Scottish ststions for incoming passengers. "We expected this to encourage the charter business; we didn't realise scheduled carriers would like it too," says Mr Lang. But ha warns that with passenger numbers growing, the concessions are under review.

Passenger throughput reached about 120,000 in 1994 as charter airlines resumed operating from Prestwick. Later that year a breakthrough was achieved when scheduled services started up again as the Irish airline Ryanair launched a low cost service to Dublin.

That was followed last autumn by Ryanair launching a service to London Stansted with the lowest return fare of £59 – marginally below that charged this year hy EasyJet hetween Edinburgh, Glasgow and Luton. Meanwhile, Gill Airways started scheduled flights to Belfast.

This year Prestwick expects to handle 560,000 passengers, with the line-up of charter airlines boosted by Laker Airways. Next year Thomson Holidays will begin flying from Prestwick, and the airport is hoping to handle 750,000 passengers.

PIK initislly offered Ryanair greatly reduced handling charges, while the fact that PIK provides all airport services itself offers scope for cross-suhsidy. Great Holidays, the airport's own travel company, which runs its own charter flights, makes a loss.

Nevertheless PIK itself has made profits from its first year of existence: in 1995-96 pre-tax profits were £1.24m on sales of £14.2m.

Prestwick expects to gain more passenger traffic when the European Union's third package of aviation liberalisation measures come into force next April, allowing airlines to fly between any two points in tha EU. "I predict there will soon be a Prestwick-Amsterdam service, and several others," he says.

The airport has also had snccess building up its freight traffic, which has grown from 16,000 tonnes in 1992 to an anticipated 45,000 tonnes this year. There are now 13 regular freight services a week, operated by Fedex (as Federal Express of the US is now known), Cargolux of Luxembourg and Lufthansa.

Mr Lang says PIK persuaded Cargolux to make Prestwick a regular stopover point. "They were overflying us on the great circle route from Seattle to Luxembourg and forwarding the freight from there by road, much of it to electronics plants in Scotland," he says. "We persuaded them it made sense to land at Prestwick on the way and discharge cargo here."

Further axpansion of freight will depend heavily on a change in international regulations which prevent a freight carrier which lands at a UK airport from the US taking on freight for delivery to another airport in Europe or elsewhere, except with special permission.

These rules inhibit the growth of airfreight services from Prestwick. The airport and the Scottish business community has recently stepped up a campaign to persuade the British government to agree a change in the rules in a new aviation agreement with the US. The Scots have high hopes that this could emerge from the current discussions abont the possihle alliance of British Airways and American Airlines.

If air freight were liberalised, wide-bodied freighters could unload at Prestwick and their cargo be taken on by smaller aircraft. Prestwick would then become an airfreight hub.

PIK plans to invest £10m next year in a new 100,000 sq ft airfreight warehouse, the first stage of a 600,000 sq ft project. It hopes to obtain funding from Enterprise Ayrshire, the development body, and from the European Regional Development Fund.

"We are building the hub in the belief that there will be liberalisation," Mr Lang says. "There has to be a change – it doesn't make sense to continue using rules on airfreight that were laid down in 1944."

But it is far from certain that the current discussions between the US and UK governments will in the short term yield a new aviation agreement. However supporters of Prestwick are convinced that in the long run liberalisation of air freight is inevitable.

PROFILE GREENWICH CALEDONIAN

Speeding up the service

The aero-engine plant can now offer a guaranteed turnround

"If a customer's got a piece of equipment with a very large amount of capital locked up in it, be wants to be sure thet the equipment is going to be serviced as quickly as possible and get it back earning again," says Mr John Horsburgh.

In this case the equipment is aero-engines, worth between $500,000 and $1m each. Mr Horsburgh is managing director of Greenwicb Caledonian, which operates an engine servicing plant near Prestwick airport.

Three years ago the plant began what it called Project 35, the aim of which was to reduce servicing time from 70 days to 35 days. Mr Horsburgh says Greenwich Caledonian can now offer a 35 day turnround to any customer with this requirement, thanks to significant changes in the plant's operating process.

"Not all customers want 35 days, but what they do want is to have the engine back when we said we would return it," he says. That was not always possible in the past.

Greenwich Caledonian is part of Greenwich Air Services, a US company with headquarters in Miami, Florida, which in June this year acquired the Prestwick plant from Aviall, another US group.

The Prestwick plant was set up in 1980 by British Caledonian, the UK airline. British Caledonian sold it in 1987 to Ryder Systems of the US, which ran it in conjunction with an aero-engine plant at Dallas, Texas. In 1993 Prestwick was spun out of Ryder and sold to Aviall, which this year sold it to Greenwich.

Greenwich Air Services claims to be the biggest Independent aero-engina service company in the world, running a larger service operation than the aero-engine industry's three original equipment makers, General Electric, Pratt & Whitney and Rolls-Royce. It is about the same size as the operations of the main airlines.

Greenwich is a privately-owned company whose main shareholder is Mr Eugene Conese, its chairman and chief executive.

It has service centres in Miami, Dallas and Prestwick and annual turnover of about $750m. Of this, around $250m is contributed by the Scottish subsidiary, which in 1984 turned over $40m.

Each of Greenwich's three centres specialises in a different engine family: Prestwick concentrates on the General Electric CF6 range of aero-engines, the big turbofans which power the McDonnell Douglas DC10 and MD11 aircraft, as well as the Boeing 747 and 767, and the Airbus 300 and 310. The plant also handles the smaller CFM56 (made by a joint venture of General Electric and Snecma of France) which powers aircraft such as the Boeing 737 and the Airbus 319 and 320.

Greenwich Caledonian does its own sales, marketing, billing and administration in its product sector. Its customers include many leading airlines, including British Airways (but only for the DC10s it inherited from British Caledonian), the South Korean airline Asiana, Federal Express and the US military. Last month it signed a 10 year agreement worth $70m with LOT Polish airlines for its Boeing 767 and 737s.

Engines are normally sent in for service when their exhaust gas temperature margin – a measure of their output effectiveness – falls to unsatisfactory levels. The flying hours that the engine can achieve between services depends partly on how many cycles (take offs and landings) it performs.

The airlines send their engines by airfreight to a European airport where Greenwich Caledonian collects them by road. When the engine reaches Prestwick it is stripped down and faulty or worn components replaced.

The Prestwick plant works 24 hours a day for 361 days a year, using a workforce divided into four shifts, each working a 6 hour day.

To implement Project 35, the entire servicing process was examined and changes made to simplify the flow for all engine types and eliminate waste. New equipment was installed.

The plant specialises in precision engineering. Of the 950 peopla it employs (the maximum the plant has had in its history) some 85 per cent are qualified engineers or mechanics. All mechanics have to sign off their work, and documentation has become even more significant following the Valujet crash in the Florida Everglades earlier this year.

The company takes on apprentices each year and trains all its employees on the job.

The plant has been qualified to the ISO9002 standard and operates its own open learning scheme to enable employees to broaden their education and hone their skills.

Mr Horsburgh, who was running the Prestwick plant for a year before Greenwich Air Services bought it, says tha change of ownership has not changed the way the plant operates.

James Buxton

■ **Training:** by David Land

Value added schemes

New initiatives have been launched for school leavers, and the Internet

In Scotland, the successor to the Youth Training Scheme has been branded as Skillseekers. School leavers are encouraged to gain qualifications in the workplace, with Scottish Vocational Qualifications being granted by Scottish Vocational Educational Council (Scotvec) based in Glasgow.

The value accorded to the accredited qualifications by both employers and trade unions has helped Skillseekers gain more credibility than previous youth training schemes.

"There are already more than 1,000 local companies, from engineering through to textiles, taking part in the programme and reaping the rewards," says Ms Janis Mitchell, senior training executive at Enterprise Ayrshire.

There are 3,300 trainees, with more than half having employed status which entitles them to the going rate for the job as opposed to the £40 per week Skillseekers allowance. Some 70 per cent of people go into employment or higher education on completion of the programme.

Increased competitiveness, higher productivity and staff motivation are some of the benefits for employers, according to Ayrshire Enterprise. SVQs can benefit business by guaranteeing that employees can do their job to a nationally recognised standard, Ms Mitchell says.

Mr Bill Kerr, general manager of the Malin Court Hotel in Turnberry, commends the Skillseekers scheme to other employers.

"Helping train a young person makee people think more about their own jobs and that leads to higher standards. Our experience of the Skillseekers scheme has been very positive," he says.

Lianne Balfour, 19, in her third year of Skillseekers training, is currently a commis (junior) chef at Malin Court and has ambitions of rising through the ranks to be head chef and eventually run her own business.

The majority of young people enter the Skillseekers at Level 1 of the SVQ, a basic foundation level, or level 2 which is roughly equivalent to English GCSE school qualifications. The Level 3 qualification is for more complex or supervieory grade work. Trainees at Level 3, with additional subjects, can qualify for a "modern apprenticeship".

"The word apprenticeship has a traditional ring to it," says George Dunlop, Enterprise Ayrshire's co-ordinator of the modern apprenticeships programme. But modern apprenticeships now cover a much wider number of jobs in a variety of modern industries ranging from banking and retailing, to engineering and plumbing.

"At the moment there are about 25 types of modern apprenticeships available to young people in Ayrshire. This figure is increasing all the time and by next year we bope to offer a choice of 50."

Katie McRobert, a 17-year-old trainee greenkeeper at the Belleisle Golf Course in Ayr, is a modern apprentice working towards a Level 3 Scottish Vocational Qualification (SVQ). "I am on target to complete my SVQ in about two and a half years. At that point I will be a qualified greenkeeper and there will be even more choices available to me, such as going into full time work or applying for agricultural college where I can study for even higher qualifications," sbe says.

More than 3,300 trainees and 1,000 local companies are taking part in the Skillseekers programme

She spends one day a week at college where her progress is assessed by the training and development team at South Ayrshire Council.

CyberSkills is a new initiative whicb is relevant to school leavers and to other groups who want to learn about the information superhighway. It is the first of its kind in Ayrshire.

It began as a programme aimed at teaching unemployed peopla about tbe information superhighway, including the World Wide Web (WWW), e-mall, PC-based video conferencing and on-line data searches. Enterprise Ayrshire was impressed with tbe concept but wanted to adapt to make it suitable for a number of other audiences.

"Wa wanted a dispersed model, ooe which can be used in different locations to different audiences throughout the community. An internet simulation CD-ROM had been produced for use in places like village halls where you cannot get a modem connection to tbe internet," says Ms Sue Jones, development manager at Enterprise Ayrshire.

Eight training providers are tailoring the course material to specific audiences. These range from the agricultural college at Auchencruive whicb is laying on courses for farmers, and the Carnegie library in Ayr wbere courses for the general public are available.

Ms Angela McCormack manages the CyberCentre at the Carnegie Library. Fifteen computers are connected to tha internet and for £40 people can enrol in a course wblch has been adapted from tbe CyberSkills programme. The four bour introductory course explains the internet and covers e-mail, the www and the use of on-line searcbes using searcb engines sucb as Lycos and Yahoo.

"It is like learning tbe plano, there is no substitute for hands-on experience," Ms McCormack says. "The courses are very popular and we attract a wide range of people." There is particular interest in e-mail among the proprietors of small businesses," she adds. The Carnegie Library is one of the training providers who operate the CyberSkills programme commercially.

A study commissioned by Enterprise Ayrsbire showed tbat the majority of small or medium sized enterprises in the area were lacking in computer skills. "There was a clear case of market failure," says Mr David Anderson, director of skills and training at Enterprise Ayrshire. "There is a risk that even if Ayrshire businesses do not grasp tbe opportunities presented by information technology tbeir competitors will."

The Ayrshire tourist sector is one which could benefit from tha expansion in tbe internet, witb businesses able to promote themselves using the World Wide Web and take bookings by e-mail.

PROFILE FULLARTON COMPUTER INDUSTRIES

Assembling parts to a hi-tech spec

The computer industry contract manufacturer is expanding locally and abroad

In the last three months Fullarton Computer Industries has taken on 450 extra people, increasing its workforce to 2,000 and consolidating its position as one of Ayrshire's largest private sector employers.

The upturn in demand is so great that it will sell £150m worth of components and sub-assemblies to the computer industry this year, compared with £85m last year. Production comes from Fullarton's seven Scottisb plants, all within five miles of the head office in Kilwinning. The company is one of the biggest British-owned contract manufacturers to the computer sector.

Fullarton also has two plants in North Carolina, US, which employ 600 people and where sales will be $60m this year.

The company was founded in 1978 by Mr Allan McLuckie, now managing director, and five colleagues wben their employer, a night storage radiator manufacturer, ran into difficulties. At first their company made farm gates and electricity meter boxes but the aim was to become a contract manufacturer to the electronics industry.

Now International Business Machines and Compaq – both of which have plants in western Scotland – feature prominently in Fullarton's list of customers. In addition to making tbe cases and cables for PCs, Fullarton buys and assembles items sucb as power supplies and disc drives to the customer's specification. After leaving Fullarton's production line, the computer boxes require only five minute's extra work before they are complete.

Fullarton has been a subsidiary of the Laird Group, tbe London-based car parts, plastics and building products group, since 1985.

Mr McLuckie describes Fullarton as the meat in the sandwich between the multinational suppliers of PCs and the end user. In addition to being able to produce to a high specification in terms of price, quality and delivery time, Fullarton has to select multinationals who will be successful in selling their product. "We have to get into bed with ones we think are going to be winners," be says.

Mr McLuckie predicts that there will be a shakeout in the PC industry as the millennium approaches. Some of tbe existing PC makers will be burned off by increasing competition, particularly from China, be believes.

> Fullarton is committed to the close knit local community

However this will be offset by tbe entry of new players wbo are currently making high value components for PCs but want to become original equipment makers. He thinks that Sony of Japan has the production and marketing expertise to be successful.

Next year Fullarton will open a factory in Ireland, wbere there are a number of multinational computer manufacturers. In addition to supplying customers in Ireland, the plant could relieve pressure on tha Scottish factories wben staff numbers are low during the holiday season.

Mr McLuckie, who was born and brought up locally, is adamant that Fullarton remains committed to the close-knit local community and that expansion abroad will safeguard the investment in Ayrshire rather than threaten it.

"Many of the 2000 people here are related to each other. We are close to our workforce and make sure that they know what the company is doing," he says.

Every three months the staff are invited in groups of 80 to the company's training centre wbere they hear details of the company's sales, profitability, investment programme and the state of the market.

"People want to hear it from the borse's mouth," says Mr McLuckie wbo reckons it takes him about three working weeks eacb year to make these presentations. "It is time and money well spent."

Although Fullarton has so far grown organically, Mr McLuckie does not rule out the possibility of making takeovers in the future, pointing out the acquisitive nature of the bolding company, Laird Group. "It has been a good marriage," he says. "I report to people wbo understand the business."

Mr McLuckie, who with John Gilfillan, the company's commercial director, owns a raceborse, insists be will leave the company as soon as he ceases enjoying the business and it is "time to go to the paddock."

Despite a reluctance to make detailed predictions about the company's future, Mr McLuckie, wbo is 51, looks relaxed and confident. It seems doubtful that be is ready to be put out to grass for soma time.

David Land

Turnberry championship course: golf is an essential part of Ayrshire's identity as well as a tourist attraction

■ **Tourism:** by David Land

On course for growth

Golf and Robert Burns are the region's prime attractions for visitors

It is breakfaet time at Copper Beech, the guest house run by George McLardy and his wife in an elegant leafy avenue in Bentinck Drive, Troon.

A middle aged couple from York eat their breakfast as Mr McLardy advises them on the local golf courses. The previous day tbey had played the course at Girvan and judged the £11 green fee to be a bargain. The £90 fee at the championship course at Royal Troon – only a few hundred yards from the B & B – was prohibitive.

Their week'e holiday, which included a few days at Crieff in Perthshire, was judged to be a success and they were delighted with the McLardys' establishment.

The carafes of iced water on the breakfast table – "the Americans like it" – are part of tha McLardys' effort to cater for the US golfers who make up an important part of the clientele.

"The Americans can fax me with what courses they want to play and I will make the booking for them," Mr McLardy says. The McLardys only opened their bome to the public three years ago and already have an occupancy rate of 80 per cent. Behind the couple's cheerful outgoing welcome – a common feature in the extrovert west of Scotland – there is a gritty determination to deliver an outstanding product.

Golf and Robert Burns are an essential part of Ayrshire's identity as well as its tourist appeal. Golfers througbout the world will see the leading players battle it out over Royal Troon's course in tbe Open Golf Championsbip. However, many will only bave a sketchy idea where Troon is, in the same way that many more people can sing Auld Lang Syne than know it was written by Robert Burns, Ayrshire's most famous son.

Ths task of raising the profile of Ayrshire and its attractions falls to Mr Paul Buchanan, chief executive of Ayrshire and Arran Tourist Board.

He acknowledges that Ayrshire will not compete with tbe "bucket and spade" market segment wbo head for the Mediterranean eacb year, but points to the affluent "grey panthers" who bave retired on a healthy pension and have the time and money to take up to five holidays a year.

"The trouble is that people in the south east of England think of us as remote. Hopefully the Ryanair fare of £49 return between Stansted airport and Prestwick will make a big difference," Mr Buchanan says.

Culzean castle, a leisurely 40 minute drive from Troon, is the most popular of the National Trust for Scotland's properties, with 200,000 people visiting each year. The castle, which was restored by Robert Adam, tbe renowned Scottish architect, in the late 18tb century, commands a stunning view over the Firth of Clyde from its dramatic clifftop vantage point.

Culzean was donated to the National Trust for Scotland in 1946 by the 5th Marquess of Ailsa, a member of the Kennedy family which had been prominent in south Ayrshire since the 12th century.

The castle was in a poor condition wben it was donated, but has been restored to its former glory. Tbe Adam features – a grand oval etaircase and the saloon overlooking the Clyde – are particularly impressive.

The public is not admitted to the Eisenhower suite at the top of the castle, but for £300 a night guests can stay in the apartment which was made over to Dwight D Eisenhower during his lifetime by the 5th earl. Eisenhower stayed at Culzean four times.

"This is a place I can relax," be wrote. There is an Eisenhower exhibit, telling the story of the soldier turned politician whicb is particularly popular with American visitors.

Looking to the future, Mr Buchanan points to the continuing development of the Scottisb Maritime Museum at Irvine. Already tbe museum has impressive exhibits including a lifeboat and restored shipyard worker's tenement flat.

The Victorian engine shop from Stephen's shipyard at Linthouse, Glasgow, has been rebuilt at Irvine and is being prepared to bouse important exbibits relating to Scottish maritime history. The museum is also restoring the clipper Carrick to its former condition as an emigration ship. It will take 10 years to complete the work on the ship which pre-dates the Cutty Sark.

Tourism brings in more than £200m to the Ayrshire economy and the sector employs 7,000 people. If the various agencies, sucb as the tourist board and Enterprise Ayrsbire are successful, tbese figures should grow and more people will enjoy the sight of the sun setting over tbe Firth of Clyde.

INTERNATIONAL CAPITAL MARKETS

Renewed interest in sterling from abroad

INTERNATIONAL BONDS

By Samer Iskandar and Conner Middelmann

While borrowers continued to tap strong demand for Italian lira bonds, with two foreign banks raising a total L400bn, the sterling sector saw renewed interest from non-resident issuers yesterday.

Elsewhere, almost $1bn was raised by motor vehicle manufacturers Toyota and Ford – the latter through its Brazilian subsidiary.

ABN-Amro, lead manager of the Ford Brazil deal, said it was "delighted" by the strong investor demand, despite the fact that there was no offering under SEC Rule 144a. This meant the issue could not be sold in the US, typically the largest outlet for emerging market debt.

The bonds proved popular among retail investors in Switzerland, the Benelux region, the UK and Germany, as well as offshore accounts of Latin American origin. ABN-Amro said demand was boosted by Ford's recent release of solid third-quarter results.

The transaction was the first leg of a $500m euro-MTN programme. The proceeds will be channelled to Brazil as part of a $2bn capital investment plan.

Elsewhere, DePfa Finance tapped the French franc market for FFr1.5bn. The 12-year maturity is DePfa's longest – apart from a small retail-targeted deal in Canadian dollars – according to Mr Frank Rühland, DePfa treasurer.

"The French franc market is strategic for us, in view of the forthcoming Emu," he said, adding that DePfa's acceptance in the sector had improved substantially. The borrower can now obtain final financing costs in francs of Libor flat – as in yesterday's issue – and sometimes even sub-Libor funds.

"We could have obtained tighter terms", Mr Rühland said, "but we chose to ensure good placement by being generous by a couple of basis points."

Syndicate officials said the paper was easily sold to French and Swiss-based investors. DePfa also expects some bonds to filter through to the UK in coming days, but doubts any significant amount will go to Germans, now that French yields are below those of bunds", Mr Rühland said.

Issuance in sterling was also buoyant, led by a £160m transaction for Eurofima. Lead manager Merrill Lynch said the deal was motivated by the "unrelenting retail demand" on the back of sterling's strength.

An official also said that "with a spread of 10 basis points, the bonds offer very good value". He compared the issue to a similar deal for the SIB, launched the previous day, with a yield 3 basis points higher than gilts, which later tightened to 1 point. Both are rated triple-A by Moody's and S&P.

The Province of Quebec also returned to the sterling market after an absence of several years to issue £150m of 15-year bonds – the first state bond at the long end of the sterling yield curve for nearly two years, lead manager SBC Warburg said.

The issue was priced to yield 73 basis points at launch but it was oversubscribed and the spread tightened to 70 basis points. The bonds were placed mainly with UK institutions such as insurance companies and pension funds.

Bank Austria, the country's largest commercial bank, issued £100m of 15-year subordinated bonds, the longest-dated sterling debt it has issued to date.

The bonds were targeted at a similar investor group and, according to lead manager SBC Warburg, the issue was also oversubscribed. The yield spread tightened from 45 basis points over gilts at launch to 42 points.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Toyota Motor Credit Corp	500	6.50	99.99R	Oct 2001	0.25R	+11(WI 5yr)	CSFB/Nomura Intl
Ford Brazil(a)	300	9.125#	98.70R	Nov 2004	0.75R	+283(WI 5yr)	ABN Amro Hoare Govett
Merrill Lynch & Co(s)	150	6.375	99.634R	Dec 1999	0.225R	+26(6%Aug99)	Merrill Lynch & Co
D-MARKS							
Merrill Lynch Intl & Co(b)	150	zero	100.00	Nov 2000	2.30	-	Merrill Lynch (Deutsch)
STERLING							
Eurofima(s)	160	7.25	99.103R	Dec 2003	0.30R	+10(8%-03)	Merrill Lynch International
Province du Quebec	150	6.625	98.644R	Nov 2011	0.55R	+73(9%-12)	SBC Warburg
Bank Austria	100	8.375	98.968R	Nov 2011	0.50R	+45(9%-12)	SBC Warburg
LB Schleswig-Holstein(l)	100	7.00	99.56R	Dec 2000	0.225R	+10(8%Dec00)	Daiwa Europe/HSBC Mkts
GUILDERS							
Bayerische Landesbank(l)	250	4.875	99.77R	Dec 2001	0.25R	+8(8¾%Sep01)	ABN Amro Hoare Govett
FRENCH FRANCS							
DePfa Finance	1.5bn	6.375	99.918R	Nov 2008	0.40R	+25(8½Oct08)	Banque Nationale de Paris
ITALIAN LIRE							
Morgan Guaranty Trust Co‡	300bn	(c)	100.18	Nov 1998	0.25	-	BCI/Cariplo/JP Morgan
Abbey Natl Trsy Services(d)	100bn	7.625	101.095	Nov 2001	1.875	-	Credito Italiano
AUSTRIAN SCHILLINGS							
Asian Dev Bank, Series B(e)	1bn	8.25	100.25	Oct 2001	undisc	-	Creditanstalt Inv Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: Fixed re-offer price; fees shown at re-offer level. a) Callable & puttable on 8/11/01 at 99½%. b) Redemption linked to German top 12 total return equity index. Puttable on 6/11/98 & 5/11/99. c) 3-mth Libor -20bp. d) L200bn launched 3/10/96 increased to L300bn. e) Exercise of warrants relating to previous issue. l) Long 1st coupon. s) Short 1st coupon.

NatWest gives terms of $5bn securitisation

By Conner Middelmann

Although the UK syndicated loans market continues to be dominated by relatively small transactions, two larger deals have attracted most attention this week.

NatWest Markets yesterday unveiled the terms of a credit facility it is putting in place in connection with the planned $5bn securitisation of some 300 corporate loans on its books.

The planned liquidity backstop facility for up to $2.5bn, backing the issuance of commercial paper in the US and Europe, will be in the name of Rose Funding Asset Company, a special-purpose vehicle.

The facility is being arranged by NatWest Markets, which will approach a number of banks in the coming days to underwrite $500m portions. The facility has a maturity of 364 days and is zero-weighted in accordance with Bank of England guidelines.

The terms and conditions were not far off estimates that had been circulating around the market in recent weeks. The commitment fee for the undrawn facility is 7.5 basis points, participation fees will be up to 2.5 basis points, and in the event the facility is drawn for liquidity purposes to support the CP programme, the margin on drawings will be up to 25 basis points.

Banks joining the facility will need short-term credit ratings of at least A1/P1.

Elsewhere, British Airways announced a $2.5bn financing facility being arranged by Bank of Tokyo-Mitsubishi, Fuji Bank, IBJ, Mitsubishi Trust and Banking and NatWest Markets.

The purpose of the facility is to assist the airline in financing a substantial number of its 19 new Boeing 747-400 and 13 new Boeing 777-200 aircraft, which are due for delivery between now and the end of 1998. It will enable individual aircraft to be financed in a number of different ways, with a maximum term of 15 years.

The underwriters have been prohibited by the borrower from revealing the terms of the deal. BA's interest margins on aircraft financing loans have fallen consistently over the past three years, from 52.5 basis points over Libor in early 1994 to 27.5 basis points in May.

This reflects the overall sharp compression of spreads in the syndicated loans market over that period.

TOP ARRANGERS OF INTERNATIONAL CREDITS*

Manager	1996** $bn	Rank	%	Issues	1995** $bn	Rank	%	Issues
BZW	20.74	1	10.68	50	10.06	5	5.91	50
Chase Manhattan	17.55	2	9.04	69	8.96	6	5.27	70
Deutsche MG	14.34	3	7.39	55	11.00	4	6.47	43
UBS	13.60	4	7.01	54	7.82	7	4.59	44
NatWest	13.21	5	6.80	57	13.44	2	7.90	52
ABN Amro	8.71	6	4.49	41	5.70	9	3.35	37
Citibank	8.65	7	4.46	38	12.37	3	7.27	44
JP Morgan	7.98	8	4.11	24	20.11	1	11.82	36
Crdt Suisse/CSFB	7.29	9	3.76	27	4.21	12	2.48	12
HSBC	6.24	10	3.22	30	6.25	8	3.68	30
Industry totals	194.1		100.0	573	170.1		100.0	647

*Europe, Middle East and Asia. **First nine months. Source: IFR Securities Data (London)

Fears on Russia hit sentiment towards Europe

GOVERNMENT BONDS

By Richard Adams in London and Lisa Bransten in New York

Fears over growing political instability in Russia after the dismissal yesterday of Mr Alexander Lebed, chief of security, dampened investor sentiment towards European government bonds, with German futures drifting lower. Germany is most vulnerable to events in Russia because of its investments in the former Soviet Union.

Analysts, however, were quick to downplay the implications. Mr Stuart Thomson, international economist at Nikko Europe in London, described the market's reaction to the events in Russia as "a storm in a teacup. There is a 90 per cent chance there will be no follow-through."

■ On Liffe, the news from Russia drove the December bund contract to a intraday low 99.04, but the future later recovered to settle at 99.19, down 0.05 on the day. Ms Ros Lifton, an international economist at HSBC Markets in London, said that bunds looked solid in the medium term, in spite of yesterday's wobble.

"Our view is fairly positive through to the end of the year, basically because there has not been a change in the economy's fundamentals," Ms Lifton said. "On top of that, there is the benefit of a supply squeeze in the 10-year area, until early next year."

■ UK gilts firmed, after falling sharply on inflation fears on Wednesday. December futures on Liffe settled at 109¾, up $\frac{1}{16}$. On the cash market, the benchmark 10-year closed at 99¾, up $\frac{1}{32}$, with the 10-year yield spread over Germany narrowing by 3 points to 163 basis points.

Mr Simon Briscoe, UK economist at Nikko Europe, said Wednesday's fall had followed several days when gilts had been at recent highs. But he thought current prices were reasonable.

"The spreads we've got against Germany are in the middle of the 150-180 range most people see the market in," Mr Briscoe said.

The cash market was likely to be squeezed for technical reasons in coming months, with only one auction left between now and the end of the year, he added.

■ Italian bonds made a recovery on Liffe, with the December BTP contract rising from 121.87 on Wednesday to 122.11 yesterday. The cash market also rose, with the benchmark 10-year bond rising 14 basis points to 107.74, yielding 8.32 per cent, taking its spread over bunds to 212 basis points, down 2 points on the day.

Ms Alison Cottrell, international economist at PaineWebber in London, said that the value of Italian bonds was based on solid domestic demand, rather than simply convergence trading around possible European monetary union.

"I'm of the opinion that Italy will outperform the other high-yielders in the near term," Ms Cottrell said.

■ US Treasury prices were buoyed yesterday by a drop in the number of new homes being built, and by a jump in claims for unemployment benefits.

There was little market reaction to the news from Russia.

Near midday, the benchmark 30-year Treasury was up $\frac{3}{8}$ at 99$\frac{3}{8}$ to yield 6.816 per cent, while the two-year note added $\frac{1}{16}$ to 100$\frac{1}{32}$, yielding 5.860 per cent. The December 30-year bond future climbed $\frac{11}{32}$ to 111.

■ Trade in London in Japanese government bonds picked up. Liffe December JGB futures rose to 122.82 by late afternoon, up from 122.74 in Tokyo.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	93.7350	+0.400	7.65	7.61	8.16
Austria		6.250	05/06	101.1800	-0.070	5.98	5.95	6.30
Belgium		7.000	05/06	106.1800	+0.030	6.12	6.09	6.58
Canada *		7.000	12/06	103.0200	+0.270	6.59	6.61	7.48
Denmark		8.000	03/06	107.3400	-0.160	6.91	8.79	7.30
France	BTAN	5.500	10/01	102.1137	-0.010	5.02	4.93	5.51
	OAT	6.500	10/06	103.6800	+0.270	6.00	6.94	6.37
Germany Bund		6.250	04/06	101.4500	+0.110	6.04	6.01	6.33
Ireland		8.000	08/06	107.0700	-0.180	6.98	6.84	7.59
Italy		9.500	02/06	107.7400	-0.500	8.29†	8.11	9.27
Japan	No 140	6.600	06/01	121.3731	+0.160	1.69	1.61	1.84
	No 182	3.000	09/05	101.2502	+0.040	2.83	2.74	2.93
Netherlands		8.500	06/06	118.2500	-	5.95	5.93	6.25
Portugal		9.500	02/06	111.3500	-0.320	7.74	7.51	8.54
Spain		8.800	04/06	105.7800	-	7.89	7.61	8.67
Sweden		6.000	02/05	91.8691	-0.460	7.33	7.14	8.10
UK Gilts		8.000	12/00	104-00	-	6.67	8.76	7.05
		7.500	12/06	99-22	+1/32	7.54	7.46	7.88
		9.000	10/08	110-10	-	7.67	7.59	6.01
US Treasury *		6.500	10/06	99-26	+16/32	6.52	6.59	6.93
		6.750	08/26	99-05	+31/32	6.82	6.86	7.12
ECU (French Govt)		7.000	04/06	104.3900	+0.050	6.36	5.31	6.77

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.88
Prime rate	8¼	Two month	-	Three year	6.03
Broker loan rate	7	Three month	5.12	Five year	6.25
Fed funds	5¼	Six month	5.30	10-year	6.52
Fed.funds at intervention	-	One year	5.52	30-year	6.81

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	125.76	126.00	+0.16	126.12	125.60	220,510	184,968
Mar	125.76	126.00	+0.14	126.08	125.72	8,642	34,881
Jun	124.66	124.86	+0.10	124.86	124.66	2	4,440

■ LONG TERM FRENCH BOND OPTIONS (MATIF) (Oct 9)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
122	-	-	-	-	-	-
123	-	3.06	-	0.01	0.12	0.54
124	2.00	-	-	0.06	0.24	0.76
125	1.16	1.43	-	0.15	0.45	1.08
126	0.44	0.83	1.49	0.44	0.99	1.52

Est. vol. total. Calls 50,674 Puts 19,911. Previous day's open int., Calls 190,076 Puts 188,392.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.25	99.19	-0.05	99.36	99.04	207984	251393
Mar	98.26	98.18	-0.06	98.30	98.15	1039	10048

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9900	0.39	0.76	0.52	0.84	0.20	0.57	1.34	1.66
9950	0.15	0.50	0.35	0.65	0.46	0.81	1.67	1.97
10000	0.05	0.31	0.23	0.50	0.86	1.12	2.05	2.32

Est. vol. total, Calls 14311 Puts 17724. Previous day's open int., Calls 221542 Puts 224922

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	121.40	122.11	+0.24	122.22	121.13	95130	82636
Mar	121.00	121.38	+0.26	121.03	121.00	47	2020

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
12200	1.43	2.00	1.32	2.62
12250	1.17	1.76	1.56	2.90
12300	0.94	1.56	1.83	3.18

Est. vol. total, Calls 3341 Puts 12383. Previous day's open int., Calls 163482 Puts 158527

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	106.15	106.29	+0.03	106.55	105.52	167,599	69,461

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	109-18	109-24	+0-02	109-28	109-11	85689	159735
Mar	108-20	108-28	+0-02	108-20	108-20	1	2142

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
109	0-61	1-32	1-19	1-56	0-13	0-48	1-27	2-00
110	0-23	0-60	0-55	1-25	0-39	1-12	1-63	2-33
111	0-07	0-34	0-35	1-01	1-23	1-50	2-43	3-09

Est. vol. total, Calls 3000 Puts 5844. Previous day's open int., Calls 43063 Puts 35732

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	93.80	93.94	+0.06	94.00	93.70	1,692	8,104
Mar	-	93.44	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	110-11	110-28	+0-18	110-27	110-09	405,616	369,459
Mar	109-27	110-12	+0-17	110-12	109-27	1,050	25,097
Jun	109-25	109-25	+0-14	109-25	109-25	100	8,198

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	122.72	-	-	122.84	122.72	2163	n/c
Mar	121.77	-	-	121.81	121.77	427	n/c

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities UK Indices

Price Indices UK Gilts	Thu Oct 17	Day's change %	Wed Oct 16	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	121.76	-0.05	121.93	2.36	7.98
2 5-15 years (19)	150.33	-0.01	150.34	2.97	8.49
3 Over 15 years (8)	165.85	0.09	165.70	3.25	8.83
4 Irredeemables (6)	190.39	-0.79	191.91	4.11	8.83
5 All stocks (55)	144.31	-0.01	144.38	2.83	8.63

	Low coupon yield Oct 17	Oct 16	Yr. ago	Medium coupon yield Oct 17	Oct 16	Yr. ago	High coupon yield Oct 17	Oct 16	Yr. ago
5 yrs	6.99	8.98	7.61	7.06	7.04	7.62	7.12	7.09	7.71
15 yrs	7.61	7.79	6.21	7.81	7.61	8.25	7.86	7.83	6.35
20 yrs	7.94	7.90	9.26	7.91	7.91	8.30	7.95	7.92	8.37
Irred.†	8.02	7.95	6.38						

Index-linked					
6 Up to 5 years (2)	202.50	-0.06	203.47	0.24	5.28
7 Over 5 years (10)	193.99	-0.14	194.26	1.21	4.17
8 All stocks (12)	183.84	-0.13	184.16	1.10	4.21

	Inflation 5% Oct 17	Oct 16	Yr. ago	Inflation 10% Oct 17	Oct 16	Yr. ago
Up to 5 yrs	3.09	3.07	3.21	2.39	2.37	2.04
Over 5 yrs	3.56	3.55	3.70	3.35	3.33	3.49

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Oct 17	Oct 16	Oct 15	Oct 14	Oct 11	Yr ago	High*	Low*
Govt. Secs. (UK)	94.01	94.29	94.79	94.72	94.73	92.91	96.34	91.59
Fixed Interest	115.97	116.15	116.24	116.24	116.28	111.20	116.45	110.74

Gilt Edged Activity Indices

	Oct 16	Oct 15	Oct 14	Oct 11	Oct 10
Gilt Edged bargains	106.0	92.9	67.5	107.9	104.6
5-day average	99.8	97.2	101.6	101.7	99.8

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on October 17

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Red	Price £	+ or -	52 week High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ☆ Tax-free to non-residents on application. δ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

THE PRIVATE FINANCE INITIATIVE

Concept starts to take root

While bidding delays remain, there is a political consensus that the scheme will be the main way of funding new capital projects for the foreseeable future, says Mark Suzman

The Private Finance Initiative, now nearly four years old, is evolving rapidly. As contractors, government departments, and financial institutions have become more familiar with the concept, deals are being struck with increasing speed. Expertise gained with older projects is helping newer ones be negotiated more quickly and the range of PFI deals under way is expanding by the week.

At the same time, there is broad political consensus that the PFI – under which private sector companies design, build, finance and operate public sector projects – will be the primary means of funding new capital projects for the foreseeable future.

Although the Labour Party has said it rejects private management of prisons and is doubtful about hospitals, it has nonetheless endorsed private sector "partnerships" in such projects and has accepted PFI in other areas. And despite initial scepticism, as more deals come to fruition both the private sector and civil servants are becoming increasingly enthusiastic about the process.

According to Michael Jack, financial secretary to the Treasury, this is in part because the most important element of PFI – the transfer of risk to the private sector – is now well established. "Across the spectrum from risk of prisoner escapes in prisons to protestor action on DBFO [design, build, finance and operate] roads, from possible extension of the 'decant' period in government accommodation projects through to faulty rolling stock on the tube, PFI is focusing procurers minds far more on the price attached to risk," he says.

Reflecting this, the government has now agreed contracts worth more than £6bn in PFI and is still confident of meeting its stated target of £14bn of projects by the end of the 1998/99 financial year.

But despite these successes, serious problems remain. Of particular concern has been the paperwork and bureaucracy involved in the bidding process.

Contractors have long complained that the convoluted procedures set out by the Treasury to satisfy its value for money test and other regulations have caused serious delays and been prohibitively expensive – often without concrete results.

As the Treasury Select Committee noted in its report on the state of the Initiative: "If the benefits of PFI are so apparent it is difficult to explain the slow progress of the initiative so far or why there is a need for a clear presumption in favour of PFI as a means of procurement."

Following the publication of the committee's findings and similar complaints from such groups as the Confederation of British Industry, the Treasury issued new guidelines in April to help streamline the process.

At the same time, the government has redoubled efforts to speed up the process. John Major, the prime minister, now requires regular reports from his ministers on the state of PFI in their sectors, increasing the pressure on sceptical civil servants to close outstanding deals.

A more fundamental concern, however, is whether the construction sector and its partners have sufficient capacity to deal with each proposed project properly. "There are far too many projects and not enough quality consortia to bid for them," says one lawyer closely involved in several PFI projects. "There has been a lowering in the quality of bids because the consortia are no longer willing to spend a lot of money in the bidding process."

For their part, private sector contractors are worried that most government departments are still fundamentally incapable of managing a concept such as PFI properly.

"The whole point of PFI is risk transfer, but the public sector is paid to avoid shouldering risk," complains Timothy Stone, a partner with KPMG Corporate Finance. "It's getting better, but we are not yet seeing the kind of changes that will ultimately be necessary to make PFI work."

That has been the task of the Private Finance Panel, a Whitehall agency, funded by the Treasury and composed largely of private sector executives.

But while the Panel is widely regarded as having been highly successful in publicising the benefits of PFI across different parts of government, it has nonetheless struggled to spread knowledge and expertise about how to put together successful PFI deals.

Its task is made more difficult by the fact that frequently civil servants who have worked on successful PFI projects are shifted to other jobs. Inexperienced people then take over negotiations on new projects, forcing the bidding consortia to start from scratch again.

According to Sheila Beck, a former member of the Panel who is now government marketing manager for Siemens Business Services, this could be remedied if the Panel were transformed into an executive agency with powers to co-ordinate all PFI projects. That would allow it to prevent inappropriate projects from reaching the bidding stage while sharing best practice more quickly and effectively.

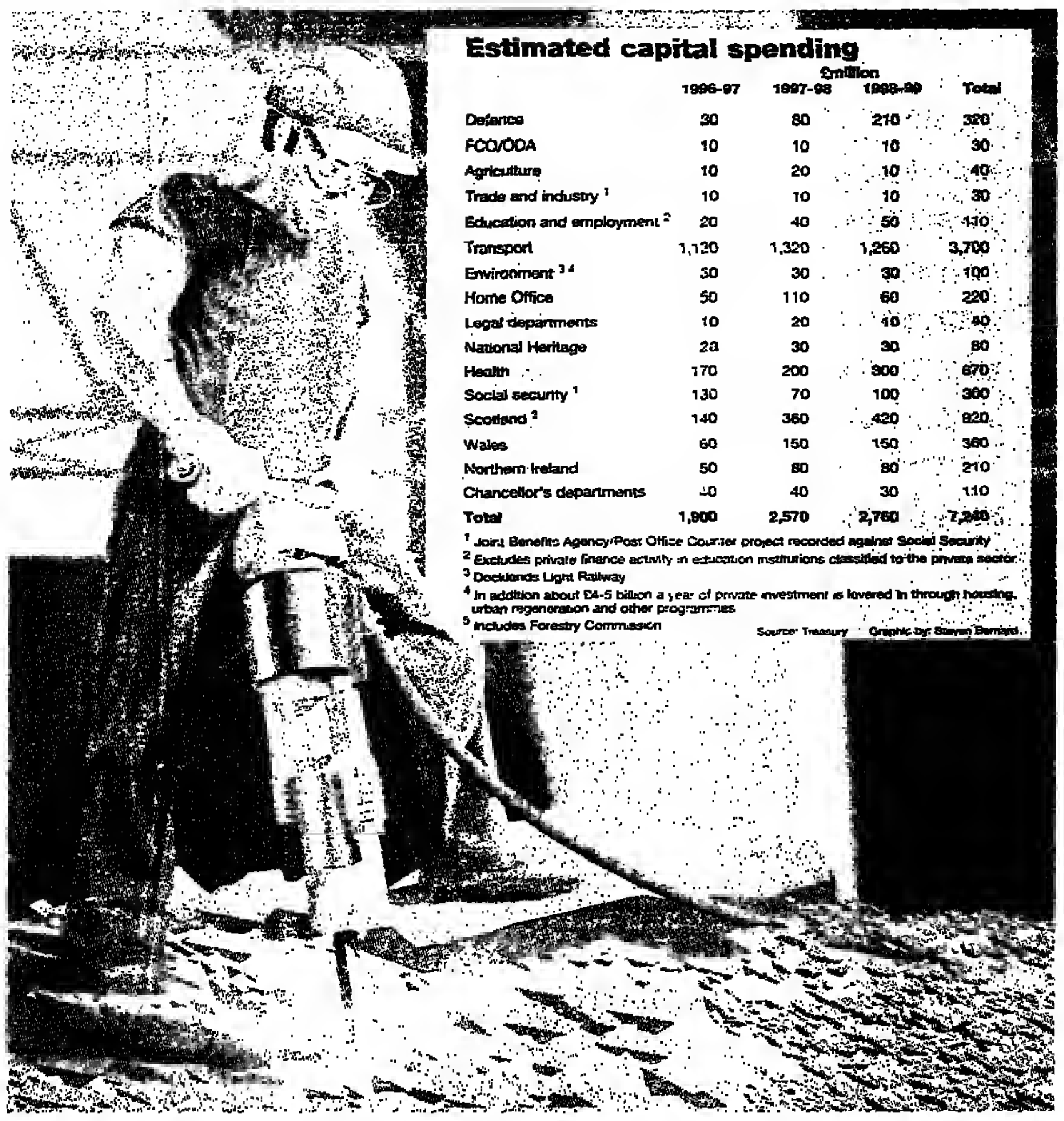
"The Panel has done its job and raised awareness," she says. "Now we need some body that can act as a procurement arm that deals with all government PFI projects and can keep and spread expertise about successful ones."

For the time being, however, such a move is unlikely. Not only are government departments resistant to relinquishing their purchasing authority, but Treasury officials fear taking PFI into a separate body would defeat the purpose of making the civil service as a whole more enthusiastic about the concept.

The problem is exacerbated by wide discrepancy in the success rate of different departments with PFI projects. In transport, for example, the programme has achieved substantial successes and the outline for new deals on road and rail projects is now well defined. The same is broadly true of prisons and a growing number of IT and property projects across several sectors.

In health, by contrast, while there has been some success with smaller projects such as incinerators and even pathology laboratories, there are still big problems with hospitals. While 24 deals worth more than £20m have preferred bidders, and six have received Treasury approval, the first contract has yet to be signed.

Continued on page 10



Estimated capital spending

	£million			
	1996-97	1997-98	1998-99	Total
Defence	30	80	210	320
FCO/ODA	10	10	10	30
Agriculture	10	20	10	40
Trade and industry [1]	10	10	10	30
Education and employment [2]	20	40	50	110
Transport	1,120	1,320	1,260	3,700
Environment [3 4]	30	30	30	100
Home Office	50	110	60	220
Legal departments	10	20	10	40
National Heritage	20	30	30	80
Health	170	200	300	670
Social security [1]	130	70	100	300
Scotland [5]	140	360	420	920
Wales	60	150	150	360
Northern Ireland	50	80	80	210
Chancellor's departments	40	40	30	110
Total	1,900	2,570	2,760	7,240

[1] Joint Benefits Agency/Post Office Counter project recorded against Social Security
[2] Excludes private finance activity in education institutions classified to the private sector
[3] Docklands Light Railway
[4] In addition about £4-5 billion a year of private investment is levered in through housing, urban regeneration and other programmes
[5] Includes Forestry Commission

Source: Treasury Graphic by: Steven Bernard

IN THIS SURVEY

AGREED PROJECTS (£m)

Scotland	
Skye Bridge	24
Dundee District Council	40
Other Scottish Health	20
TOTAL	84
Wales	
University Hospital	6
Osiris	16
TOTAL	22
Northern Ireland	
Bangor - Kinnegar Water	20
Laganside development	50
Other Northern Ireland	6
Westlink Roads Service	10
TOTAL	86
Home Office	
Bridgend Prison	80
Fazakerley Prison	80
Lowdham Grange Prison	36
Immigration Nationality Dept	41
Other projects	6
TOTAL	244
Defence	
Geran White vehicles	52
LISA Partnering	30
RAF White Vehicles	35
Others	30
TOTAL	147
Transport	
Channel Tunnel Rail Link	3,000
Dartford Bridge	150
Northern Line trains	400
Heathrow Express (since transferred to private sector)	300
Second Severn Crossing	300
Six DBFO Roads:	472
A69	10 (tranche 1)
AI (M)	144 (tranche 1)
A417/A419	33 (tranche 1)
AI - MI	200 (tranche 1)
A50	20 (tranche IA)
A30	75 (tranche IA)
TOTAL	4,622

(capital value of DBFO programme announced is more than 1bn – 37 projects)

Social Security	
National Insurance Computers	150
BA/POCL	120
Longbenton-Newcastle	80
TOTAL	350
Health	
Amersham DGH	40
St James', Leeds	50
Royal Berks & Battle	20
Norwich & Norfolk DGH	170
Swindon & Marlborough	90
Central Middlesex	4
Smaller deals	85
TOTAL	459
Environment	
Waltham Forest HAT (170 new housing units)	15
National Heritage	
Royal Armouries	42
DfEE	
Greenwich student accommodation	11
Treasury	
Main building	190
Inland Revenue	
Regional HQ, Manchester	15
LCD	
LOCCS computer system	25

Profile: Michael Jack: by Alan Pike

Quick response to valid criticism

The financial secretary is reacting positively to the concerns of potential bidders

When the Confederation of British Industry produced a report calling for changes in the operation of PFI, Michael Jack, the financial secretary to the Treasury, issued an immediate response agreeing with many of its findings.

Mr Jack, the minister with prime responsibility for promoting PFI, has made a virtue of listening to critics, and acknowledging that they can sometimes be right.

"I have never shirked criticism," he says. "It is not a showstopper, it's a help because it highlights where we have to do better. I welcomed the CBI report and viewed it positively because its tone was right, and if criticism is justified it is silly to say we are not going to do anything about it."

Mr Jack believes the government has already taken considerable steps towards addressing the complaints of excessive bureaucracy, lack of commercial expertise in Whitehall departments and excessive costs and delays that have been levelled by the private sector at PFI contract negotiations.

He cites the government's Guidelines for Smoothing the Procurement Process document issued this year which, he says, was welcomed by business. Mr Jack feels it addressed many concerns and "changed the atmosphere" in which PFI negotiations took place.

The government has also undertaken to train up to 10,000 civil servants in the skills needed to handle PFI negotiations, with the first 2,000 having completed the programme. "I have never disguised the fact that we will not instantly turn civil servants into business people, but it is an indication of our good intent to address candidly areas of criticism."

But, with criticism continuing, the government is about to go much further. New guidance issued between now and the end of the year will seek to refine existing PFI arrangements in a number of crucial areas. Mr Jack promises a "steady flow of material which is going to address many of the areas where there has been continuing criticism".

One of the most significant aspects of the new guidance will be the publication of standard contract terms. "There are complaints that people have to reinvent the wheel every time they do a PFI deal," says Mr Jack. "We will produce some contract terms which try to standardise the approach for a number of typical situations.

"This is not to say that everything will be on a standard form – in certain areas such as prisons, the formula is well worked out. But in areas where there is a need for standardisation, this publication will deal with that particular problem. I think it will be widely welcomed."

Other guidance will cover the transfer of equity – addressing the question of how contractors, having capitalised a project and got it running, can recyle their capital into another scheme – and output specifications.

"PFI, in spite of having a large amount of capital in it, is about buying services," says Mr Jack. "The specification of those services is utterly central to the success of any project. Tight procurement requires a tight specification."

Guidance documents will also address a series of other issues including project appraisal, risk transfer and EU procurement procedures.

The next significant step in the development of PFI, believes Mr Jack, will be its extension to local government. He sees this as an important opportunity to bring more regional and local companies into PFI partnerships alongside the national groups that have made the running so far.

Even critics of details of the PFI's introduction, argues Mr Jack, recognise that it has quickly become a permanent feature. Initiative, he says, is a word used by politicians to describe an idea that they want to test, but of which they are not really certain. "It has been suggested that we should now call PFI the Private Finance Institution. Nobody doubts that this partnership of public and private activity is here to stay – given a word or two of interpretation, there is no serious political party that would disagree with that."

Mr Jack acknowledges that there has been "some slippage" in the time taken to complete deals, and is bracing himself for renewed criticism if targets are missed.

But he responds that this must be set against an increase in the rate of progress – in September 1995 agreed projects totalled £1.4bn, and the cumulative total by last month was £6.7bn.

He accepts that the government's new guidance is unlikely to stop criticism of the way PFI has been introduced. "People will always say we could do better, and I accept that and will continue to welcome the comment.

"But we have gone beyond taking stock. We continue to develop the initiative. We continue to post success. When, in the next period, we say that we are going to do more deals we will have some justification for making the claim because the rate at which we are doing deals is speeding up," he says.

Michael Jack: seeking to refine existing PFI arrangements

Labour: by David Wighton

Difference in the details

The opposition party backs the initiative, but would refine its implementation

One of the most striking features of the PFI is the high degree of political consensus. The differences, such as they are, relate largely to detail rather than broad principle.

But John Prescott, Labour's deputy leader, rejects the suggestion that Labour has come round to the government's way of thinking on private finance. He claims that it was all his idea in the first place.

Whatever its parentage, the major parties are both strong backers of the initiative. They are also, despite the rhetoric, largely in agreement about how the operation of the PFI could be improved. Labour calls for the government to be more selective in choosing projects for PFI treatment and recommends more training for civil servants involved in the process.

The government replies huffily that such reforms are already in hand. But Alistair Darling, the shadow chief secretary to the Treasury, insists that there are important differences in approach. Most fundamentally, he argues that it is the responsibility of government to establish public spending priorities and that the Conservatives' increasing reliance on the PFI means the private sector is deciding which projects go ahead.

On an operational level, he is keen on the idea of having members of the PFI Panel broker early projects, which will then provide blueprints for future deals.

He is also critical of some of the large PFI projects currently in the pipeline, which he suggests are little more than attempts to shore up the public finances now at the expense of future liabilities. Although he has not examined the proposed sale of Department of Social Security properties in detail, he says it has all the appearance of a simple "sale and leaseback" deal. "There is nothing new about a sale and leaseback and it is nothing to do with the PFI."

Some cynics believe that a cash-strapped Labour government will be tempted to step up the PFI in order to fund its public spending commitments on the never-never. Labour's reply is that its plans to overhaul government accounting will force Whitehall to be much more rigorous in project appraisals because the future liabilities generated by a PFI contract will be clearly shown on the national balance sheet.

Despite Labour's enthusiasm for the the concept of private-public partnerships, Mr Darling says the potential must be kept in perspective. "If people think the PFI is the answer to all our problems, that will condemn it to failure."

> 'If you were not transferring the risk you would not transfer the reward either'

On the vexed question of the transfer of risk, Mr Darling says Labour would be looking for a more "genuine partnership" between public and private sectors. "That means dividing responsibilities between the public and private sectors according to what they do best. In some cases that would mean transferring less risk to the private sector."

But he strenuously denies suggestions that a Labour government would be a soft touch and PFI projects would become a low-risk gravy train. "If you were not transferring the risk you would not transfer the reward either. You must not get into the position where the public sector would be left holding the baby while the private sector runs away with the money."

One of the most pressing concerns of companies involved in the PFI is what Labour's attitude will be to its application in controversial areas such as health. Until recently, Labour policy was to exclude PFI from health entirely, as it was seen as amounting to backdoor privatisation.

Some shadow cabinet members are still fiercely opposed to any further private sector involvement in the NHS. But earlier this year, the official position changed to opening up everything but "clinical services". It is not yet clear what it means by clinical services however and Mr Darling concedes that Labour's definition may be rather wider than the government's.

Mr Darling promises to provide a bit more detail at a conference later this month. But frontbench colleagues accept that the party needs to produce a more comprehensive statement of its attitude to PFI in health to reduce the uncertainty in the market.

"We really have to sort out our position by Christmas," says one frontbencher.

Construction of the Second Severn Crossing: today the bridge has a large private revenue stream and involves no payments by the public sector. All the revenue comes from motorists via tolls. The government's role is threefold: it awarded the initial contract; it has enforcement powers in case of default; and it regulates the income of the winning Laing-GTM consortium through a cap on toll levels related to the retail price index and a further cap on the revenue the consortium can make over the 30-year concession Tony Andrews

INTERVIEW | Alastair Ross Goobey, chairman of the Private Finance Panel

Principal interpreter in 'dialogue of the deaf'

Mark Suzman talks to the City investment manager many hope will help public and private sector communicate

'The PFI should be viewed as a portfolio of deals; in any portfolio there will be good decisions and poor decisions. That is the nature of PFI – both sides are learning how to transfer risk' Brendan Corr

Alastair Ross Goobey was appointed chairman of the Private Finance Panel, a Whitehall agency funded by the Treasury to promote the PFI across the public sector, in May. He is chief executive of Hermes Investment, which manages Britain's post and telecoms pensions funds and was a former special adviser to Lord Lawson in 1987 and Norman Lamont in 1992 during their respective tenures at the Treasury.

How would you assess the past year for the PFI?
Overall there has been substantial progress, albeit with notable problems in health. In property, IT, roads prisons and the Ministry of Defence it is all going well. Government departments with projects already being built are now particularly enthusiastic about it. The Prison Service, for example, is delighted with the quality and speed of getting new prisons through PFI compared with normal public sector procurement.

What do you see as the main causes of the problems and delays that have dogged the programme so far?
Some of the initial projects were not particularly well defined at the outline business case stage (the initial process of deciding whether a proposed project is likely to be suitable for PFI). Also, one should not underestimate what a dramatic change in public sector service provision PFI represents. The whole focus has had to change from defining inputs to outputs.

Basically, PFI delivery is about providing a service, not owning an asset. If you use private finance it is essential that there is some risk transfer to the supplier of the service and that has been difficult to negotiate.

Do you feel contracts are now emerging that can be used as examples for future deals?
We are beginning to develop some templates, although none of them are perfect. But with prisons or roads we certainly have some quite successful models emerging and others will follow.

Are you concerned about capacity constraints?
The problem with PFI is that we are trying to deliver 1,400 projects and there probably aren't 1,400 people in the country who have sufficient depth of knowledge about how PFI works to close a deal.

Contractors have withdrawn from some projects because they don't have the people resources or the financial resources to pursue them all.

It does suggest that the "let a thousand flowers bloom" approach may now be drawing to an end, although there are still difficulties with changing that because of the decentralisation of the process in areas such as health.

Could the problems in health be repeated in local government and education deals?
I think it will be less of a problem because authorities already have a lot of experience in public/private partnerships and are very keen to improve their capital stock.

What do you see as the proper role of the Private Finance Panel?
It is sometimes said that the PFI has been a dialogue of the deaf between the public and private sector. I see the Panel as a hearing aid. We carry messages which may not be welcome to either side and try to help solve structural problems. We also ensure government is aware of private sector concerns.

What do you think of the suggestion that the Panel needs to be turned into a more powerful executive agency that can co-ordinate all PFI deals?
It is true that the Panel has no powers other than persuasion and illumination but I question how you could change it. The idea is to get PFI accepted root and branch in the public sector.

But isn't there a problem with the lack of public sector expertise?
I accept that the private sector is frustrated because new people [on the public sector side] come into contracts and make the same mistakes as their predecessors. So I can see why the private sector thinks [giving more powers to the Panel] is a good idea. But the only way PFI will stick is if it comes to pervade the whole culture of government departments.

Many people see PFI projects of the future being driven by a new kind of company rather than today's contractor driven consortia. Do you think this is likely?
It is logical, necessary and inevitable that new infrastructure companies are created to manage PFI projects. Although many contractors want to recycle some equity, several are also already looking at longer term service provision themselves.

The utility companies are also good candidates. It will take time though – five years is probably the minimum time scale for these companies to stand alone.

Do you feel there are still outstanding political problems around the issue of PFI?
The Labour Party has made it clear that PFI will stand. Basically there's no other game around. However we as a panel will do what the government asks us. Any changes will be for the government of the day to decide.

What have been the most important lessons so far?
In practical terms we now know we shouldn't advertise for tenders until the outline business case is really sewn up and we should then shortlist as few companies as possible. Both those changes should help get a preferred bidder to contract more quickly.

Also, there will always be some deals where the government ultimately does very well and some where the private sector does.

The PFI should be viewed as a portfolio of deals; in any portfolio there will be good decisions and poor decisions. That is the nature of PFI – both sides are learning how to transfer risk.

But while I am under no illusion that PFI has taken longer and been more complicated than expected I have no doubt at all that the overall value for money that the public sector ultimately gets out of it will be substantial.

■ **Local government:** by Alan Pike

Promoting partnerships

Projects have been identified and new rules should start the flow of deals

The introduction of PFI in local government has always hed the appearance of an exercise in hard work.

It was acknowledged from the outset tbat the complexities of local government finance, and the relatively small scale of many of its potential projects, might be deterrents to private sector interest. Just as efforts to address these questions were in progress, the High Court sdded another serious hurdle.

The court decided in May that Credit Suisse could not recover £17m loans from Allerdale and Waltbam Forest councils, because the two authorities had acted outside their powers in guaranteeing them. Although not directly connected with PFI, the timing of the judgments – only a month after tbe launch of formal attempts to promote the initiative in local government – raised private sector apprehension about partnerships with councils.

But ministers bope that relaxations in local anthority capital finance rules, due to be introduced tbis autumn, will become tbe starting point for a substantial flow of PFI deals. The new rules are intended to make PFI more attractive to local antborities because appropriate projects will no longer count as a cbarge against tbeir capitsl resources.

Councils throughout the country have identified a variety of potential PFI projects – ranging, says Paul Bryans, chief executive of local government's Public Private Partnerships Programme (4Ps), from information technology to crematoria. Bnt he does not expect many of these to move beyond the ideas stage until the new regulations have become established.

"Local authorities and the privste sector are waking up to PFI opportunities, hut getting suitable regulations in place is going to be the driver for completed deals," be said.

There are two fundamental local authority concerns – that PFI should remain voluntary, and that projects should he treated as additional items to councils' tightly-controlled hudgets. Local anthority representatives have told the government that the spirit of PFI schemes being additional items must be reflected in the annual capping arrangements under whicb the government limits tbe total expenditure of each council.

4Ps was set up by the local authority associations earlier this year to promote PFI and other public-private partnerships. This week, 4Ps' staff embarked on a nationwide series of presentations to promote the initiative among councils and widen understanding of potential opportunities.

In addition to raising interest in PFI among councillors and officers, the unit has to find ways of smoothing the private sector's path towards completing deals witb local authorities. It is currently developing pathfinder projects built around common structures, using standard documentation as far as possible.

This should, says Mr Bryans, help private sector partners assemble portfolios of smaller projects.

He rejects the conventional wisdom that most local government PFI ideas will be small-scale, and by implication perhaps of less interest to the private sector than schemes promoted by Whitehall departments.

"Local government will have its share of very big schemes," he said. "It is local authorities, rather than the Highways Agency, that are responsible for most road maintenance and for maintaining many bridges and tunnels – so highways will yield big schemes.

"District heating schemes, enabling the private sector to supply and maintain central heating systems to large numbers of homes, also have the potential to produce big projects.

"But not all local authority PFI schemes need to be big. There are many smaller companies, which could not bid for very large projects, that currently do a great deal of work for local authorities. We need to get the message through that PFI can be for them as well."

Bryans and his colleagues are looking at ways of linking smaller projects together to create suitably-sized PFI packages.

A single PFI contract could, for example, harness private sector resources to refurbish and maintain a group of school buildings – most obviously within one local authority area, but perhaps eventually involving several councils.

If the complicated and rule-bound local government finance structures are a possible barrier to private sector interest, politics may be another. During the lifetime of a typical PFI scheme, the control of some closely-balanced councils might pass between the political parties several times. Potential private sector partners could regard this as introducing an additional element of uncertainly to PFI in local government.

Mr Bryans does not accept that the political composition of a council will influence its attitude to PFI. "Since 4Ps was set up, we have discussed proposals for schemes with councils of all shades of political control. When a council approaches me with an idea, it does not occur to me to wonder which party controls it. All councils share a common interest in providing high quality services. It PFI can help do this, they will be interested."

Not always small scale: highways will yield big schemes for local authorities who are responsible for most road, bridge and tunnel maintenance Trevor Humphries

■ **Local authority finance**

Using carrot and stick

Sweeping new regulations aim to encourage councils to participate in PFI

New regulations which come into force on October 31 are the most sweeping of a series of recent government attempts to clarify local authority capital finance rules.

David Curry, local government minister, believes they will clear the way for councils to take up PFI. "We intend to give local authorities all the support they need, with experts from government departments ready to work with them to ensure the delivery of practical schemes," he says.

Tbe new regulations address most of the issues that local authority representatives told ministers must be resolved to make PFI viable in the sector.

Provided PFI contracts transfer a sufficient amount of risk to private contractors, they will not count against councils' capital resources.

To qualify, contracts will have to provide for a contractor's payments to be reduced to 80 per cent of normal if service falls below expectations. Ministers had originally proposed a 70 per cent threshold, and the 80 per cent level will make more schemes eligible.

Under the new regulations, PFI contracts will be able to involve either lump sum payments by local authorities to contractors, or revenue sharing agreements.

The government will have power to approve, on a discretionary hasis, projects which fail to meet the precise criteria for local government PFI schemes.

There will also be discretion for the government to approve schemes which include input from local authorities' own direct service organisations. This could be a significant factor in persuading some councils, anxious not to put the viability of their in-house services at risk, to adopt PFI. It might mean, for example, a direct service organisation being contracted to maintain buildings transferred to the private sector under a PFI contract.

Mr Curry has said revenne payments to finance PFI schemes will not be covered by the rules under which local authorities' total budgets are capped by the government – meaning such schemes can be treated as additional to current spending.

This has been welcomed by council leaders, although they remain concerned that the principle is one that might not permanently survive the annual allocation of government grants to local authorities.

Ministers intend to make revenue support of £50m this year and £200m next year available to belp get PFI started in local government.

The development of PFI in local government depends on the willingness of councils to participate. Local authorities, unlike central government departments and agencies, are under no obligation to consider PFI as an option when planning capital projects.

But current tight government controls on conventional capital spending will be a powerful incentive for councils to consider partnerships with the private sector. Mr Curry has said that schools, police stations, fire stations and roads are all examples of local authority investments that the government regards as suitable for PFI.

Outside the specific requirements of the capital finance regulations, individual councils will retain considerable flexibility in determining the shape of PFI schemes – something which should appeal to potential privats sector partners. Substantial issnes, such as determining whether the public or private partner owns a capital asset at the end of a contract, will be determined in the local level contract negotiations.

Alan Pike

Government revenue support for local authority PFI

	1996-97	1997-8
Transport	5	35
Education	15	35
Police, fire and probation	14	45
Social services	2	5
Magistrates' courts	2	20
Non-HRA housing	2	30
Other services	10	30
Total England	50	200

Source: Department of the Environment

RECRUITMENT

The rise may foreshadow problems, says Richard Donkin

Demand quickens

A steady rise in advertising demand for executives from a low point in 1993 appears to be quickening, according to the latest quarterly figures from MSL, the human resources group.

The MSL index, which has a good record of running slightly ahead of trends, is predicting a boost in economic activity towards the year-end. Advertised demand for senior managers is up 31 per cent on the third quarter of 1995. The moving annual total, a rolling monthly total that irons out seasonal fluctuations, is now at its highest point since the third quarter of 1990.

The moving annual total for sales and marketing advertisements, a particularly useful barometer of economic growth, is at its highest since the index began in 1959.

There is some sound common sense behind tracking such advertisements as economic predictors. "Historically the sales and marketing category has been a leading indicator because it reflects an increase in trade, which in turn creates the need to strengthen other functions within companies," says Gary Long, MSL Group chairman.

But Long warns that the figures foreshadow some recruitment problems. "If past experience is an indicator, the scale of the increase in the index will be following by the appearance of shortages in certain skill areas or industry sectors."

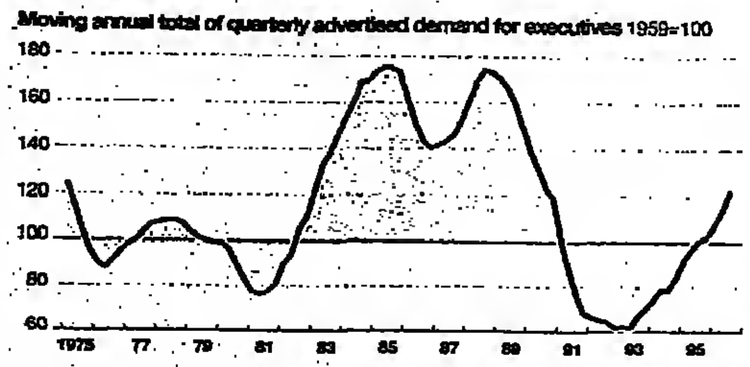
He adds: "Businesses must prepare for this eventuality by reviewing the strengths and weaknesses of their existing teams."

The steepening of the curve, which is taking on a remarkable resemblance to that in 1963 and 1964, may also be a cause of some concern given the government's commitment to a steadily improving economy, rather than one which is overheating.

All industries record increases. Advertised demand is strongest in retail where vacancies are up 60 per cent on the same period last year.

MSL recruitment index

Moving annual total of quarterly advertised demand for executives 1959=100



Across the global remuneration gap

The "fat cat" debate about the pay packets of top executives which captures the headlines in the UK has never reached the same intensity in the US. Companies there seem more concerned about the ratio of top salaries to the bottom end of remuneration.

This explains the "never mind our guys, look at them" flavour of the latest report* on worldwide remuneration from Towers Perrin, the employee pay and benefits consultancy. The report, based on the company's worldwide pay databank, looks at the remuneration of employees in medium-sized companies with annual sales of between $250m and $300m a year.

As the graph illustrates, salaries have rocketed in central and south America, often because of high inflation rather than growth in real wage levels.

The biggest disparities are found when the study compares the pay of a chief executive as a multiple of the average level of a manufacturing employee. It found that the average US multiple of 24 was eclipsed by that in Venezuela (75), Mexico (44), Brazil (41), and Hong Kong and Singapore (both 38).

In Europe, the UK multiple of 19 is the highest among the countries listed, ahead of Italy (17), France (16), Spain (15), Germany (11) and Switzerland (10). Switzerland's comparatively low multiple is explained by its high wages in manufacturing, where employees are the highest-paid in the world – basic gross wages average just below $50,000.

When it comes to after-tax total cash compensation, US chief executives – with net pay averaging $307,000 a year – are pushed into second place in the world league by Argentine chief executives who earn $328,000 net on average.

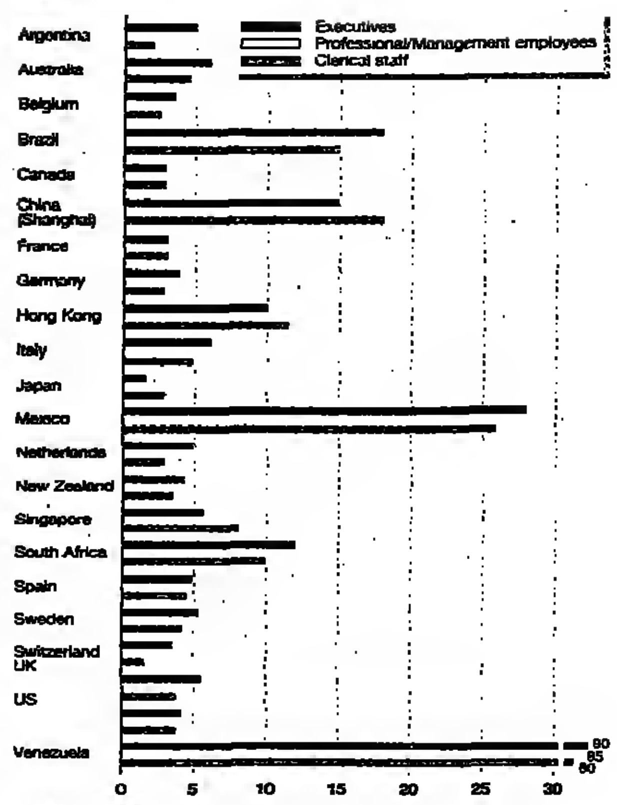
Other big net earners at chief executive level are Hong Kong ($296,000), Brazil ($282,000) and Singapore ($286,000). Towers Perrin quotes an average net pay of $184,000 for chief executives of UK medium-sized companies.

Richard Donkin

Towers Perrin, 335 Madison Avenue, New York, NY 10017-4605, US. Free

Salary increases

1996 (%)



Source: Towers Perrin

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We guarantee a quality and diversity of experience that will give you immediate job satisfaction and continuing personal growth. We will support your professional development and progression with a structured training programme. Salaries are highly competitive and backed up by a comprehensive benefits package.

In short, this is a career move to treasure. Please write with a detailed cv, quoting reference MCS 4016, to:
Tim Forster, Price Waterhouse
Management Consulting Limited,
No.1 London Bridge, London SE1 9QL.

Price Waterhouse
Management Consulting

Price Waterhouse is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

The value of expert communication.

INVESTMENT WRITING AND COMMUNICATIONS
Excellent packages

Fidelity has become the world's largest independent investment management organisation - managing assets of $450 billion - through innovative products, proven investment performance and outstanding customer service. Our Investment Communications team provides accurate and timely market views and commentary, to a range of distribution channels, both internally and externally.

Now we are looking for more expert professionals to join the team, further strengthening communication between investment specialists and our customers.

Investment Writers - Japan, US & Pacific Rim.

Producing in-depth, accurate and concise reviews for our institutional customers, your work will be distinguished by its clarity and vision - commenting on portfolio performance, investment strategy, asset allocation, market outlook, buy/sell decisions and individual stock performance. This will involve close liaison with fund managers, thorough understanding of financial markets and the capacity to deliver a heavy schedule to deadline. Accordingly, you will be of graduate calibre, with proven high-quality writing skills. Ref: IW/16.10/FT.

Investment Communications Executive - German Markets.

This is a role at the hub of a department that provides market and fund information to our marketing and sales teams. Specifically, you will support our German marketing team: liaising closely with fund managers, keeping fully abreast of the economic and stock market environment - producing written and verbal presentations that are accurate and informed.

A degree or equivalent in Economics or Business Studies would be ideal, whilst the ability to write on economic and financial matters in both German and English is essential. Beyond that, journalistic, analyst or investment writing experience - and knowledge of the German Mutual Fund industry - would be beneficial. Ref: IE/16.10/FT.

In return, we offer attractive remuneration and career packages - in a company that values the contribution of expert communication.

To find out more, please send your CV with salary details, quoting the relevant reference number to: Chris Woodman, Fidelity Investments, Oakhill House, 130 Tonbridge Road, Hildenborough, Kent TN11 9DZ.

FAX 01732 832792

MAIL

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Structured Finance and Leasing

Why should you give up your present job for this?

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Price Waterhouse has an outstanding reputation for creative advice that makes a real difference to our clients' shareholder value.

We are enhancing our structured finance and leasing capability so that we may expand the cross-border services we provide to global clients. We are seeking the finest talent to help us achieve our goals. Our expectations and standards are very high, but we offer outstanding experience and opportunities for people who have a lot to give, and who are willing to contribute and take up the challenge.

In our structured finance and leasing practices we advise on, and develop, structures for the acquisition or financing of assets, balance sheet financing which results in a reduced after tax cost of funds, and investment structures which enhance after tax returns. Our advice and structures typically have international characteristics. Our team is committed to solving our clients' most complex global problems; we are sure that our global approach makes the world of difference.

We are looking for people with the right experience and the right attitude of mind - creative, 'out of the box' thinkers who also understand that in the real world not all theory is achievable. At the more senior level, we will be looking for the experience we describe below - but we are also keen to recruit individuals who do not yet have the experience, but are eager to succeed in this specialist area through working with top quality professionals.

You should be an ambitious person, prepared to work hard, with an eagerness to become outstanding in the field. It is also likely that you will have one or more of the following:

- A banking, accounting or legal qualification, with experience in a professional services firm or the 'front office' of a leading bank or other financial institution.
- An understanding of structured finance or leasing including a knowledge of transactions using hybrid instruments, hybrid entities, tax sparing, preference shares, derivatives, special purpose vehicles, project finance structures etc.
- A relevant knowledge of international tax regimes (such as US, Japanese, German and UK) which apply to these transactions.
- Cash flow modelling experience, including a knowledge of instrument pricings.

In addition, you will have:

- An international outlook and a willingness to travel.
- The ability to work with people in a team.
- A consulting mind-set.
- Influencing skills and the ability to communicate clearly.
- The willingness and desire to do something different.

If you are interested, and we hope you are if you have read this far, please send your CV to:
Peter Wilson, Lead Structured Finance Partner, or
Ailsa Adair, Tax Recruitment Manager,
Price Waterhouse, Southwark Towers,
32 London Bridge Street, London SE1 9SY.

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Your world of opportunity

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KPMG

Senior Financial Opportunities

- **Gulf**
- **£ Excellent**

Our client is a multi-billion pound international resource conglomerate, with wide ranging activities and interests in the Gulf area. As a consequence of its continuing growth and development, the need has arisen to appoint two senior financial executives to its finance team.

Group Treasurer
- **to £175,000 pa**

Reporting to the Assistant Managing Director for Finance, the Group Treasurer will be responsible for establishing and managing the treasury function at group level, for planning, implementing and monitoring performance and for cash forecasting and management systems for the Group's treasury activities.

Educated to degree level, with a further degree or professional qualification, the successful candidate will have at least 15 years' experience of senior corporate treasury management in a multi-national organisation with significant overseas subsidiaries. He or she will be used to operating at a senior level in a multi-cultural environment and will have experience of working with major international financial institutions. Team leadership, proactivity and the ability to develop a world class treasury function will be essential to the role. Previous Middle East experience working in a multi-function conglomerate will be a significant advantage. This post will initially be a two to three year contract. **Ref: 0700.**

Project Financing Manager
- **to £100,000 pa**

This role reports to the Group Treasurer and will hold responsibility for analysis and advice for funding and structuring of major international projects. A key requirement will be the ability to provide detailed advice on financial, taxation and legal factors affecting investment decisions and structuring. Modelling and analysis of project proposals, the negotiation and development of complex finance structures as well as risk analysis of major projects will be essential requirements.

Educated to degree level, preferably with an accounting or legal qualification and 10 years' experience of working at a senior level in international project finance will be needed. Experience of development, structuring and negotiation of large funding projects, including joint ventures and partnerships, will be necessary, as will evidence of an innovative approach and successful transaction implementation. **Ref: 0600.**

The posts attract generous employment packages and are based in the Gulf area.

If you meet the demanding criteria for these senior financial positions, please send your CV with details of current remuneration, quoting the appropriate reference number, to Janina Harper or Bernard Grant, KPMG Selection & Search, 1-2 Dorset Rise, Blackfriars, London EC4Y 8AE, fax number 0171 311 5872.

KPMG Selection & Search

Scandinavian Sales

Global Investment Management

Attractive Salary + Bonus & Benefits — **City of London**

Superb opportunity for outstanding candidate to join growing sales team at senior level. Take responsibility for sales to key region: Scandinavia.

THE COMPANY
- Major European financial institution with an outstanding reputation.
- London-based global investment management business is important well resourced subsidiary. Complemented by the Group's other substantial worldwide asset management resources.
- The Group has successfully offered financial services to Scandinavian institutions for a number of years.

THE POSITION
- Requires an exceptional candidate to develop strong relationships with Scandinavian institutions.
- The successful candidate must have an ability to gain an understanding of the exact investment requirements sought by the prospective client and to offer the appropriate tailored solutions.
- He/she will lead the sales process in the region but will require a team-minded approach, working closely with skilled portfolio managers and other colleagues to meet investor needs.

QUALIFICATIONS
- Circa 10 years in investment banking/investment management environment. Fund manager or business developer with total grasp of investment process. Academic/Professional qualifications essential.
- Current relevant contact base in Scandinavia and experience of working in a major financial centre.
- Should exhibit sophisticated knowledge of equities, fixed income and development capital.
- Proven business winner. First-class communication skills. Energetic, committed and highly motivated. Must be effective working independently and in a team. Able to travel extensively. Fluent English and Scandinavian languages desirable.

Please send full cv, stating salary, ref FS61004, to NBS, 10 Arthur Street, London EC4R 9AY

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COMPLIANCE SURVEILLANCE SPECIALIST

Salomon Brothers, one of the world's leading global investment firms, is seeking a surveillance specialist to work in the European Compliance Department. This role will concentrate principally on conducting surveillance and monitoring of the firm's adherence to external regulation and internal policies. It will also involve assisting in the conduct of special enquiries and responding to regulatory queries.

To succeed, you will be educated to degree standard or have attained a relevant recognised qualification such as the Securities Industry Diploma, or a legal or accounting qualification. You will be well-versed in PC-based data retrieval, manipulation and interpretation. Some experience of computer-based forensic investigation is desirable.

A minimum of three years' experience within the financial services sector is required, obtained by working in a firm regulated by the SFA or another of Salomon's UK regulators. Knowledge and experience of US and European regulatory issues would be an advantage. To succeed, you should be an effective communicator, possess good oral and written skills, be self motivated, conscientious, and able to work both independently and within a team environment. A desire for both personal and professional development is expected.

A competitive remuneration package is available. Interested applicants should write enclosing a complete curriculum vitae to Ann Crookall, Human Resources Group, Salomon Brothers International Limited, Victoria Plaza, 111 Buckingham Palace Road, London SW1W 0SB.

London
£excellent + bonus + benefits

Salomon Brothers

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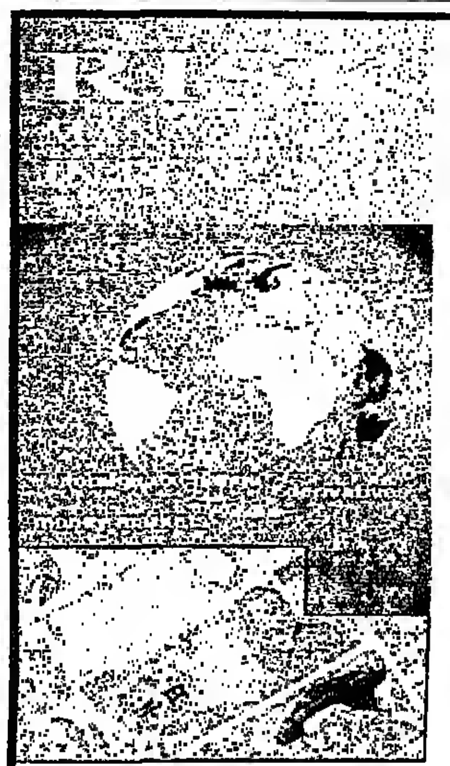

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SUNGARD CAPITAL MARKETS is the pre-eminent worldwide provider of trading, operations control and integrated risk management solutions for the derivatives, securities, foreign exchange and money markets.

We currently service more than 700 banks, financial institutions and multi-national corporations through a global network of sales and support centres. Market leadership is aggressively maintained by entrepreneurial flair and R&D investment which annually exceeds the revenues of most would-be competitors.

Our flagship products, The Devon Derivatives System and The Devon Forex System, continue to set the market standard. Licence sales of these, and our pioneering enterprise-wide risk management system, Panorama, helped us grow by more than 30 per cent last year.

As the need for integrated real-time risk management software spirals, the success of Panorama continues to escalate. Therefore, in order to satisfy the ever increasing interest in our products, it is of paramount importance to recruit the following individuals:

QUALITY ASSURANCE MANAGER

This is a high profile end key role which will have considerable impact on the development process, within SunGard Capital Markets, well into the future.

The new incumbent will be charged with establishing a quality assurance and testing environment and will play a significant part in defining and implementing a systems testing strategy. You will work closely with development teams and Business Consultants co-ordinating testing amongst the teams and ensuring that all testing is carried out to the required standard.

The successful applicant will have worked in a similar business area and will have experience of systems testing in a multi-application installation. You will need to be able to influence and gain the support of management and team members, both verbally and in writing, and have the necessary co-ordination skills to organise and motivate other people. Although a technical background is not essential, any knowledge of NT architecture and systems testing tools would be highly advantageous.

BUSINESS CONSULTANTS

For the first few months, the Business Consultants will assist the Quality Manager in implementing a systems testing strategy within the Panorama Risk Management Systems development environment.

Subsequently, the Business Consultants will play a vital role in liaising with the product development group and clients in analysing and specifying new functionality and enhancements to core software. In addition, you will be fully responsible for the ongoing development and support of client relationships. You will provide the entire spectrum of pre and post sales consultancy, including project management, implementations, training and troubleshooting.

Successful applicants will have a good academic background and a sound knowledge of Risk Management in one or more of the following business areas: Derivatives, Capital Markets, Treasury. You will be an accomplished relationship builder with a keen and enthusiastic attitude and must enjoy working in a demanding and challenging environment.

In each instance, it is essential that candidates are team players and have the interpersonal skills and diplomacy that such high profile positions require. Above all you will have both the desire and potential to be part of an organisation whose global presence and success owes much to the performance of its employees.

For further information please write to: Ruth Velenski, TALISMAN INFORMATION SYSTEMS RESOURCING, Portland House, 4 Great Portland Street, London W1N 5AA. Fax: 0171 307 3101. Tel: 0171 307 3100. E-mail: 100772,635@compuserv.com

asimco

Investment Manager - China

Excellent career opportunities for an Investment Manager with the leading direct investment, venture capital corporation in the dynamic and challenging China market.

ASIMCO, which was founded in 1993, is a rapidly developing corporation which has invested over US$300 million in fourteen joint ventures in China.

ASIMCO's investment strategy combines a large local presence (70 professionals based in Beijing) with a very specific investment strategy which focuses on developing an industry expertise, finding the best partners in China and then taking an active management role in each investment.

As part of this strategy, and due to ASIMCO's rapid expansion, there is a need to recruit an Investment Manager, stationed in Beijing. The person appointed will report directly to the Director of Investments and be responsible for:
analyzing current operations and future development of the investments, including the analysis of costs, profitability, forecasts and budgets;
upgrading the financial reporting systems of the investments;
carrying out due diligence, negotiating terms and supervising the legal process on potential new investments.

Ideally, the successful candidate will have attained a professional accounting qualification, have a minimum of five years experience in either a professional accounting firm, as a financial controller in a manufacturing company or as an Investment Executive in a venture capital company.

Interested applicants should send their CV to **Lisa Foley, ASIMCO, Parkview Center, 4/F, No. 2 Jiangtai Road, South Side Chaoyang District, Beijing, 100016, China or fax (8610) 6438 2735.** Interviews will be held in London at the beginning of November.

SENIOR MTN & PRIVATE PLACEMENTS SPECIALIST LONDON/TOKYO

Our client, a leading Investment Bank, is seeking to recruit a senior MTN & Private Placements Specialist.

The successful candidate will have a minimum of five years' experience of Fixed Income Derivative products, with specific exposure to MTN markets and experience of leading a team. Fluent Japanese and a relevant degree qualification are essential.

An excellent knowledge of a wide range of asset classes would be a distinct advantage.

Please reply to Box No. A5720 The Financial Times, 1 Southwark Bridge, London SE1 9HZ enclosing a full Curriculum Vitae.

CORPORATE FINANCE ASSOCIATE - HUNGARY

An investment bank focusing on Eastern Europe requires a self-motivated and commercialy orientated graduate to augment its Corporate Finance team for Hungary.

Based in London, reporting directly to the Executive Director responsible for developing corporate finance opportunities, the successful candidate will form a key part of the small developing team.

A fluent Hungarian speaker, the successful applicant will be a graduate with a second degree (eg. MSc, PhD) in business studies, economics or related discipline. The applicant must have already obtained 12 months experience working in Hungarian corporate finance Involvement in new issues and privatisation activities is highly desirable). The successful candidate must also demonstrate a comprehensive understanding of the Hungarian market; have strong communication and interpersonal skills and be fluent in two other European languages. Starting salary US$55,000 per annum.

Write to: Box A5724, Financial Times, One Southwark Bridge, London SE1 9HL.

Position Vacant: Managing Director

UK registered trading company require person with MBA and 4 years relevant managerial experience.

Fluency in Tigrigna and Amharic essential.

Please send c.v.'s to:
Tower Trading Co Ltd, 211 Clapham Road, SW9 0QH

CJA

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Tel: 0171-588 3588 or 0171-588 3576
Fax No. 0171-256 8501

Excellent opportunity for individual who wishes to be a leading force in a small organisation with prospects of growing remuneration over 2-4 years.

EXECUTIVE ASSISTANT TO INVESTMENT DIRECTOR

FUND MANAGEMENT/INVESTMENT ANALYSIS/MARKETING

LONDON SW1 **£50,000 - £70,000 INITIAL REMUNERATION**

INVESTMENT COMPANY

The Investment Director is founder and owner of this diversified investment company, which manages investment trust funds and is a market leader in advising on PEPs. He is seeking a bright graduate (Oxbridga calibre) aged 25-35 with a minimum of 2 years but ideally 5 years broadly based investment management and analysis experience. Competency on p.c.s. and all round IT literacy is essential as is the ability to deal at a senior level and be self-sufficient. The I.D. needs a 'shadow' to work closely with him on all projects but particularly portfolio management and UK and overseas investment research. There will also be marketing for prospective business and dealing with clients on a daily basis. The remuneration is bonus driven: initial salary £35,000-£40,000 plus guaranteed bonus of 50% in first year and prospects of very substantial remuneration in the medium term.

Applications in strict confidence under Ref: EAID5820/FT to the Managing Director: CJA.

Your Key Investment Bankers.

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

Credit Risk Management

Associate - Italian Speaking

SBC Warburg is established as an integral global player, a world leader in investment banking. We are seeking to recruit an Italian speaking Credit Analyst with around three years' experience of analysing Italian/ European corporates and insurance companies.

Based in London within a small, highly motivated team, you will undertake risk management for Capital Markets, Treasury and Corporate Finance. You will also liaise with counterparties and regulatory/professional bodies in relevant countries.

Ideally, you will have received formal credit training and have some knowledge of derivative products. We are looking for individuals who would welcome the chance to adopt a high profile and play a critical role in the business process.

In return you can look forward to an excellent remuneration package matched by equally excellent prospects for the future.

A CV including your current remuneration package should be sent to Ron Bradley, Director/Head of Permanent Recruitment, Jonathon Wren & Co. Ltd., Financial Recruitment Consultants, No. 1 New Street, London, EC2M 4TP (fax: 0171-626 5257) quoting reference P. Alternatively, telephone for an initial discussion on 0171-623 1266.

Corporate Finance Executives
Institutional Sales/Research
Private Client Stockbrokers

Branston & Gothard is an independent stockbroker with a private client and institutional sales and research department.

We also have a growing fund management and financial planning operation.

We now intend to expand both our corporate finance capability and our institutional sales and research department.

We are therefore looking for:

- Qualified corporate finance executives
- Experienced small company analysts/sales people with successful institutional connections
- Private client stockbrokers with established client banks for our London and Manchester Offices.

Remuneration will include competitive salary, profit share, pension scheme, share options and private medical insurance.

Please apply in writing with current CV to:
Mr A R Craze, Chief Executive,
Branston & Gothard Limited,
3 Finsbury Square, London EC2A 1BX.

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+44 0171 873 3456

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PRIVATE CLIENT INVESTMENT MANAGER

London **Competitive Salary**

Due to rapid expansion, Fleming Private Asset Management is seeking to recruit an experienced Investment Manager to work with a Director responsible for managing substantial sums of money for private clients.

■

Duties will include managing client portfolios, preparing valuations and assisting the Director with his client base.

■

Candidates should have a thorough knowledge of the UK and International markets and should be computer literate.

■

A minimum of 5 years' experience in a Private Client Department and membership of the Securities Institute is desirable. Candidates should be self-motivated, confident in dealing with clients and have strong communication skills.

■

Please write, in the first instance, with full CV (including current salary details) to:

■

Shauna Browne
Senior Personnel Officer
Robert Fleming & Co. Ltd.
Finsbury Dials
20 Finsbury Street
London EC2Y 9AQ

HSBC Investment Banking

Member HSBC Group

International M&A and Corporate Advisory

London Based — £ Excellent Package

The HSBC Group, with headquarters in London, is one of the world's largest banking and financial services organisations, with an international network of more than 3,300 offices. Unrivalled financial resources, global reach and contacts, ensure that the HSBC Group is ideally placed to develop further its pre-eminent position.

HSBC Investment Banking is responsible for the advice and financing, equity securities, asset management and private banking activities of the HSBC Group. The Corporate Finance and Advisory department encompasses corporate advisory, M&A and International ECM activities. We are now looking to recruit a number of outstanding specialists for our international transaction teams.

This is an exceptional opportunity for individuals to develop further their experience across a wide range of international transactions, including the origination, structuring and execution of mergers and acquisitions for quoted and unquoted companies, equity offerings and privatisations.

Successful candidates will be exposed to HSBC Investment Banking's growing international client base, working closely with its industry specialists and network of international offices in 40 countries worldwide.

Candidates of the highest quality are sought:

- Graduates with up to five years Corporate Advisory, M&A or ECM experience gained within a leading financial institution. Exposure to a high profile range of transactions conducted on an international basis is essential.
- Fluency in a European language, in addition to English, is a distinct advantage.
- An excellent academic background and keen intellect. Mature, tenacious and energetic.
- An additional qualification such as an MBA would be advantageous.
- Team players with initiative, creativity and flair together with a high level of motivation and commitment.

Please send a full cv to: Stephen Grant, Morgan McKinley Associates, Ruskin House, 40/41 Museum Street, London WC1A 1LT.
Tel: 0171 404 4100 Fax: 0171 404 4334.

Morgan McKinley Associates
Executive Recruitment

N M Rothschild & Sons Limited

Rothschilds is a leading international investment banking group with 40 offices in 27 countries worldwide. It is ranked first in M&A in the UK and second in France, Asia Pacific and South America. It is the leading Telecoms adviser worldwide and is a pre-eminent adviser to the international Natural Resource and Utilities industries.

Recent transactions include advising Deutsche Telekom on its global offering, Hanson on its 4-way demerger, Sun Alliance on its merger with Royal Insurance, the Lloyds of London restructuring, BT on its joint venture with CGE of France, Southern Water on its acquisition by ScottishPower, the CVRD privatisation in Brazil and the Collahuasi project financing in Chile.

The bank is significantly expanding its operations in UK and Continental European M&A, Natural Resources and Telecoms. It is recruiting additional professionals seeking a career in providing corporate advice to leading companies worldwide in all these areas. All positions are based in London and offer an excellent compensation package.

All applicants should have an excellent academic record, preferably a second language, a dynamic personality and be highly motivated.

M&A

The Role:
Providing corporate advice to companies in the UK and Continental Europe on intra and cross border acquisitions and disposals, capital raising, flotations, valuations and restructurings

Experience required:
- 1-5 years corporate finance experience with a leading investment bank, accountancy or law firm
- strong analytical and financial modelling skills

Natural Resources & Utilities

The Role:
Advising mining, oil & gas and energy utility companies worldwide on acquisitions and disposals, restructurings, and privatisations and project financings

Experience required:
- 2-5 years M&A and/or financing experience in either the mining, oil & gas or energy utility industries gained in a leading commercial or investment bank, legal, consulting or industry environment
- strong analytical and financial modelling skills

Telecoms

The Role:
Advising companies in the converging telecoms, media and computer services industries. Assignments will be worldwide and include acquisitions, disposals, joint-ventures, restructurings and privatisations

Experience required:
- 2-5 years experience with a leading investment bank, strategic consultancy or in the corporate development department of an industry participant
- 1-2 years minimum relevant sector experience
- strong analytical and financial modelling skills

Write in strictest confidence with a copy of your CV, indicating your current remuneration, to Rodney Lonsdale, Personnel Director, N M Rothschild & Sons Limited, New Court, St Swithin's Lane, London EC4P 4DU

Six figure package — Coutts & Co — **London**

Head of Tax/Estates Planning

These two senior opportunities with Coutts, the international private banking division of the NatWest Group, underline Coutts' commitment to deliver wealth management to its substantial client base. A top quality tax and estates planning advisory service is at the heart of this new client-driven strategy. Significant freedom and scope exist to build sizeable professional resources from small but solid bases with the potential to develop into major business streams.

THE ROLE

- Responsible for leading, building and managing a specialist tax or estates planning practice providing the full spectrum of domestic advice to clients from tax planning through to compliance and from trusts through to wills.
- Gain internal and external recognition as the in-house expert at the head of a highly professional and technically excellent product development team.
- Market these services in conjunction with client management teams, working together to exploit client opportunities and product synergies.

THE QUALIFICATIONS

- Partner in either private client tax or estates planning with a leading accountancy firm or law firm with outstanding technical and professional skills and a track record which demonstrates management ability.
- Entrepreneurial and commercially minded self-starter with an outgoing personality and the vision, commitment and ambition to build a business.
- A team leader as well as a team player who can work effectively and build consensus in a complex matrix structure.

Leeds 0113 2307774
London 0171 493 1238
Manchester 0161 499 1700

Selector Europe
Spencer Stuart

Please reply with full details to: Selector Europe, Ref. XLF0131061, 16 Connaught Place, London W2 2ED

Britannia

£50,000 + bonus + benefits — **Glasgow**

Compliance Officer

Britannia Life was one of the earliest and is now one of the largest bancassurers in the UK with funds under management of more than £4 billion. With an exceptional record of growth, multi-channel distribution and a significant investment in new systems under way, the company is superbly positioned to continue taking market share in an increasingly competitive sector. An experienced compliance professional is now sought to play an active role in sustaining rigorous standards of regulatory compliance throughout the business.

THE ROLE

- Reporting to the MD and to the Board, and working closely with the senior management team to ensure that products, procedures and operations are fully compliant.
- Provide innovative, practical solutions to complex compliance issues that still allow for commercial success.
- Close liaison with regulators to maintain the highest possible awareness of current and likely future regulatory obligations.

THE QUALIFICATIONS

- Graduate calibre with an appropriate professional qualification. Prior experience in a senior compliance role within another financial services organisation.
- Articulate, confident communicator with the ability to interpret and explain complex rules unambiguously at all levels of the business.
- Proactive, enthusiastic and focused. Strong on attention to detail yet with the ability to take a broad overview.

Leeds 0113 2307774
London 0171 493 1238
Manchester 0161 499 1700

Selector Europe
Spencer Stuart

Please reply with full details to: Selector Europe, Ref. Y201010614, Adlington Court, Greencourts Business Park, Styal Road, Manchester M22 5LG

BUSINESS CONSULTANCY

CAREER OPPORTUNITIES WITH A GLOBAL UNIVERSAL BANK

This institution is one of the world's largest and most powerful universal banks. It provides clients with the widest possible range of investment, capital market, commercial banking and retail services.

Candidates are likely to be working for a leading banking institution or consulting firm and able to demonstrate a successful track record of actively managing highly complex projects and delivering innovative yet pragmatic solutions.

Business Consultants will have proven, exceptional communication skills at senior management level as well as the ability to provide leadership to multi-disciplined teams and to act autonomously on projects.

A good understanding of the operations processes of an investment and commercial bank, along with a detailed grasp of at least one product area – for example Treasuries, Commodities etc – is essential.

Liaising with heads of business areas and the other senior management, this individual will utilise both internal and external resources to deliver a broad range of project solutions.

The team provides assistance throughout the bank on areas such as performance analysis and operational improvement, management and implementation of change projects and programmes and organisational reviews. You will also carry out bench marking studies, new business planning and all aspects of operational risks.

The goal of this team of internal consultants is to make a recognisable contribution to the structures of both the domestic and the international organisations of the bank. Business Process Re-engineering is one of the major re-structuring tools employed.

The company offers a performance oriented salary package and a variety of internal and external training programmes as well as long term career development opportunities.

Interested candidates should contact contact **Richard Parnell** or **James Rust** at **Robert Walters Associates** by sending a detailed curriculum vitae stating current remuneration to **25 Bedford Street, London WC2E 9HP** or faxing details for their attention on **0171 915 8714**.
E-mail: richard.parnell@robertwalters.com

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EMERGING MARKETS
Business Development and Sales Executive — **London**

FRAMLINGTON is a highly respected investment company with global emerging market capabilities. The company is particularly strong in the new frontier markets of eastern Europe, Russia and Africa, where a number of funds have been launched.

Framlington wish to appoint a sales and marketing executive to head up the development of this aspect of the company's business. The individual will be responsible for marketing and developing all of our emerging markets' activities. Working closely with our investment team, the successful candidate will contribute to the launch and promotion of new funds, with the main emphasis of the role being to develop and expand the funds under management in this area.

It is essential that the individual has experience in the field of emerging markets, preferably in eastern Europe. It is not necessarily required that applicants have previous marketing experience but it is essential that they are well known and have good quality contacts in the European emerging markets arena.

Remuneration will include a highly competitive package of basic salary and bonus together with excellent benefits. Interested applicants should write, with details of current remuneration, to:
Mrs E Sproull Personnel Manager
Framlington Group plc
155 Bishopsgate
London
EC2M 3XJ.

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■ Health: by Mark Suzman

Commitments prove elusive

Little progress has been made in clinching the big hospital deals so badly needed

There may be some debate as to which has been the best-performing area for PFI over the past 12 months, but there is no contest for the worst: the health sector has had a very difficult year. Although some deals are now imminent, not a single one of the big hospital deals expected to revitalise capital stock in the National Health Service is yet signed.

It is all a stark contrast to last November, when Stephen Dorrell, the health secretary, announced the first such project to receive Treasury approval – a £30m hospital for South Buckinghamshire trust – after last year's budget. Then he said he expected deals to come through at a rate of at least one a month, with construction beginning shortly after.

Since then there has been no shortage of projects – 24 have now got preferred bidders while five more have been formally approved by the Treasury – but signed deals have proved frustratingly elusive.

At the same time, several contractors have withdrawn from projects at the bidding stage in protest at the expensa and bureaucracy involved.

The first big obstacle came at the beginning of the year when banks and other lenders became concerned that the structure of the decentralised NHS meant that the government would not be required to honour the liabilities of any trust that went bankrupt.

In response, Mr Dorrell rushed through emergency legislation in the form of the Residual Liabilities Act, which was passed in March, committing the government to meet such risks.

To the irritation of trusts, however, some banks are still concerned that the health secretary may be able to use a loophole to avoid payments, and are therefore reluctant to commit to a hospital deal.

"It is frustrating that banks and lawyers keep winding it up," says Andrew Neill, head of the private finance unit in the NHS, who insists that it is neither "necessary nor possible" for Mr Dorrell to completely guarantee such liabilities.

That is probably true. Some banks are reportedly now ready to sign deals anyway but are reluctant to be the first out of the starting gate for fear of setting inappropriate precedents.

But there are other problems as well. Contractors at one flagship scheme, Swindon & Marlborough's plans for the £90m rebuilding of its Princess Margaret hospital, have had to find a new greenfield site, indefinitely delaying a project which now requires a new design and new costings.

More serious, however, has been the issue of affordability. Several hospital trusts have found themselves unable to pay for projects that meet their original specifications.

In part this has been due to contractors not submitting detailed bids at the preliminary stage. But a bigger problem has been that many cash-strapped health authorities, which provide trusts with the bulk of their annual income, are unable to commit to provide enough money to finance the deals.

As a result, Swindon, together with other trusts such as North Durham Acute, has had to cut back on its original proposals after discovering that it cannot afford the payments necessary to fund a project meeting its original specifications.

Cash-strapped: health authorities, which provide hospital trusts with most of their annual income, cannot commit to providing enough money to finance deals Tony Andrews

Stephen Dorrell: last November he said he expected deals to emerge at a rate of at least one a month

Analysts warn that as many as 10 trusts could be affected with the gaps ranging between £1m-£5m a year for the life-time of the 30 year contracts.

Such problems have proved highly frustrating to health managers who are anxious to get projects up and running. According to Marco Cereste, chairman of the NHS Trust Federation, an umbrella group for trusts, what is needed is a clearer focus from the department of health.

"There must be a better selection process for PFI projects," he says. "The simple truth is not all projects are suitable. The assumption that they are – pursuing obvious non-starters – wastes public and private resources."

That message has started to hit home, and Mr Neill now admits that some of the projects will probably not get off the ground through PFI.

"Affordability is an absolute limit," he says. "We have already got schemes where we don't think PFI is going to work."

Mr Neill also agrees that the initial process followed by the department of health in launching PFI was flawed. Instead of trying to rush as many deals as possible through to preferred bidder, he says it would probably have been more sensible to target a few pathfinder projects that could then have acted as examples for new ones.

However he insists that the problems should not be seen as a failure for PFI. "What would be a failure is if we kept going back to the market with the same type of projects. It would be entirely wrong to suggest it's PFI or nothing."

> 'It would be entirely wrong to suggest it's PFI or nothing

Despite all the setbacks, however, no preferred bidders have yet pulled out of a deal and the principals involved in the front-running projects remain convinced that it is only a matter of time before the first few contracts are finally signed.

"New problems do seem to crop up, but we are slowly getting there," says one banker closely involved in several negotiations.

There have been some other silver linings amid all the heavy cloud. In April, the Treasury agreed that VAT incurred in PFI schemes could be reclaimed – without which even many of the strongest projects would be threatened by affordability problems.

Some 40 smaller deals, ranging from IT projects to incinerators and car parks have been signed, bringing the total up to about £300m. Even troublesome smaller projects such as pathology units – controversial because they are a form of clinical services – have been successful.

And in the meantime, people involved in negotiations on the front-running hospitals such as South Buckinghamshire and the £170m Norfolk and Norwich plan for a new district general hospital are still optimistic that the first big contract will be signed shortly.

However, even then, Mr Neill acknowledges that this will not automatically mean that a successful blueprint for future deals has been created.

"The first few deals will have different structures," he warns. "It is not expected that those will be a one-size-fits-all exact template."

■ **Education:** by Jonathan Ball

Sector starts to take note

Though only recently targeted, education is waking up to the scheme's benefits

While claims of success are being made by government ministers, PFI in the education sector has only been targeted since the end of last year and its total yield will depend on the spending decisions of universities, colleges, local authorities and schools. The government estimates that more than £1bn could emerge over the next three years.

Specialist PFI Units have been established in the Higher Education Funding Council for England (HEFCE), the Further Education Funding Council (FEFC) and the Funding Agency for Schools (FAS). The HEFCE and the FEFC have drawn up lists of PFI pathfinder projects, and at the end of 1995 the Treasury's Private Finance Panel Executive established a unit devoted to the development of PFI in education.

In the schools sector, PFI is an emerging factor in the provision of schools capital. The Department for Education and Employment (DfEE) is working to facilitate the introduction of PFI into schools by developing pathfinder projects in conjunction with local authorities, the dioceses and grant maintained schools.

The first two pathfinder projects – Pimlico School in London and St Wilfrid's Church of England High School in Blackburn – have received government support towards project costs.

Pimlico is a £20m project for the design, construction, operation and maintenance of school buildings, and St Wilfrid's entails the relocation of the school to a new greenfield site. A project is also under way at Colfox School in Bridport.

The DfEE expects PFI to play an increasingly important role in the funding of school capital projects. So far, the newly independent colleges of the sector have attracted more than £100m of private sector investment. The FEFC has named 11 projects as pathfinders:

- Carlisle College;
- Clarendon College, Nottingham;
- Tynemouth College;
- Waltham Forest College;
- West Cumbria College;
- City of Liverpool Community College;
- Canterbury College;
- Newbury College;
- Stoke on Trent College;
- South East Essex College;
- Stockton and Billingham College.

"The projects are at varying stages of procurement," says Phil Head, head of the PFI unit in the FEFC. "Among the most advanced are at Clarendon College and Waltham Forest, where in both cases the announcement of the preferred bidder is imminent."

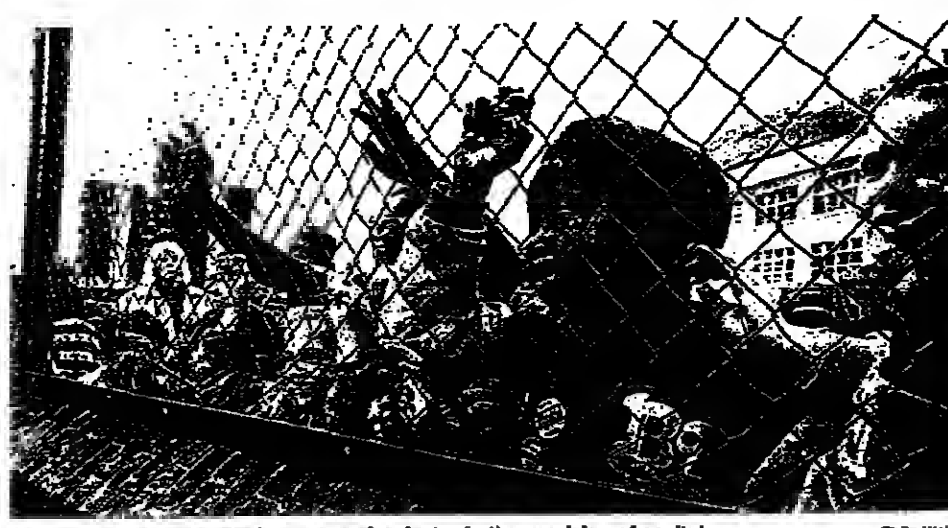
The Clarendon project is a £12.6m scheme for the acquisition and refurbishment of a building with associated facilities management, while Waltham Forest is a DBFO (design, build, finance, operate) contract for the relocation of the schools of engineering and automobile engineering. Discussions with a potential partner are taking place at Carlisle College.

The FEFC has also published a projects register listing 488 potential PFI projects at 172 oolleges at a value of £650m. Universities and higher education colleges are similarly pursuing the scope for partnerships with the private sector. The HEFCE has named 10 projects as pathfinders:

- Bournemouth University;
- Essex University;
- Falmouth College of Arts;
- Leeds Metropolitan University;
- Leicester University
- Nottingham Trent University;
- Portsmouth University;
- Bloomsbury Consortium (School of Oriental and African Studies);
- Southampton Institute;
- Westminster University.

"The HE [higher education] sector is beginning to realise the opportunities PFI procuremant can offer to their institutions," says Natalie Norminton of the Private Finance Panel Executive.

One of the largest ventures in higher education is a £123m redevelopment to provide taaching and research accommodation for King's College London and the United Medical and Dental Schools (UMDS), which are merging under the Tomlinson Report recommendations. Dr Lynn Carlisle of the UMDS says: "We are currently engaged in an exclusive negotiating period with one tenderer, and we expect to be able to name our preferred partner very shortly."



In the schools sector, PFI is an emerging factor in the provision of capital Philip Wolmuth

Another major project is a £20m review of the residence portfolio at Westminster University. "We have appointed advisers to help us compile the shortlist of bidders," says Alan Strang, project manager at the university. "We are at present reviewing the timetable for the project, but we intend to select our preferred bidder by the end of February 1997."

The HEFC has set up a database of potential PFI projects and interested private investors. Total borrowing within higher education from the private sector is estimated at £1.6bn, and this is being supplemented increasingly by funds from the private sector through PFI arrangements.

A typical partnership approach is Greenwich University's £12m BOOT (build, own, operate and transfer) scheme for student accommodation, which was officially opened by Gillian Shephard, the secretary of state for education and employment, on 1 October.

Such PFI-type projects in universities involve the private sector in sharing financial risks and assuming management responsibility for new or refurbished buildings over an extended period.

PFI is attracting interest from specialist concerns such as the Rotch Funding Group and Nord Anglia Education, who are actively exploring funding mechanisms and the scope for facilities management in education respectively.

"It has been a steep learning curve for all concerned," says Henry Dallal, director with Rotch, which is assisting bidders with funding on seven education projects. "Every PFI deal is different and inevitably complex."

Kevin McNeany, chairman of Nord Anglia, says: "What PFI seems to be missing is an operating partner or facilities manager from the education sector, which is the role we are adopting in the various consortia of which we are members.

"Over the next 12 months we expect colleges to look more closely at PFI and realise they can outsource things they have been doing themselves to people who can do it more efficiently and cheaply."

■ **Information technology suppliers:** by Paul Taylor

New risks with new rewards

Views vary on the costs and benefits brought by the initiative to the IT sector

For the leading information technology services suppliers in Britain, the Private Finance Initiative, launched by Norman Lamont in late 1992, has provided both new opportunities and new risks.

Under the PFI, private sector companies often grouped together into consortia, have begun to take on the risks of developing and delivering IT systems for the public sector in return for payments generally linked to the volume of business.

PFI's supporters claim it is enabling government to tap new technology to raise efficiency, cut costs and improve quality of service provision.

For example, in May this year a consortium led by ICL, the UK-based computer and computer services group majority owned by Fujitsu of Japan, was awarded a government contract worth more than £1bn to link Britain's 20,000 post offices by computer – a contract the government hopes will also help it fight benefit fraud.

Aside from ICL, the winning consortium – dubbed Pathway – also includes Girobank, De La Rue, the security printing company, and An Post, the Irish Post Office. The computer network – to be phased in over the next two to three years – will be the largest of its type in Europe, handling 1bn payments, worth £60bn, each year.

The contract, which will run for eight years, is one of the largest awarded under the PFI and includes the provision of £200m of computer equipment and operating costs of about £1bn. It was hailed by the Treasury as a critical advance for the PFI, even though severe delays in the contract negotiations were a source of some controversy.

The winning consortium, which beat two other contenders – one led by Andersen Consulting and the other by International Business Machines – is believed to have won the contract because of its competitive pricing and willingness to assume greater risk than its two main rivals. Pathway is assuming all risks associated directly with the operation of the automated system, including an element involved with the encashment of benefits through the new card.

As Peter Lilley, the social security secretary, noted, the consortium would be committed to taking "a significant share of the risk" of payment fraud if the new benefit payment system was 'cracked'. Meanwhile, almost all of Pathway's revenue will depend on use, giving the consortium a strong incentive to introduce the system speedily and maximise use from sources other than the Benefits Agency.

Government officials have hailed the contract as "pathbreaking" in the degree of risk transferred under the project from the public to the private sector – risk transfer is central to the government's claim that PFI provides better value for money than traditional public sector procurement.

In support of this argument the government and officials cite the agreement earlier this year by Andersen Consulting to pay the government about £12m in compensation for its failure to deliver the full service promised to the Department of Social Security from next February through the new computerised national insurance records system (NIRS2) – another IT related PFI project.

Andersen Consulting which won the £100m NIRS2 contract, was forced to renegotiate it after admitting that it could not meet its commitments because of development difficulties. While the Treasury claims the compensation is a triumphant demonstration of the PFI's success in passing the risk for project delays to the private sector, critics argue that the delay in full implementation of the system showed that PFI projects are no more reliable than old-style public procurements.

Meanwhile, the time and expense involved in negotiating PFI contracts has also become an issue. For example, when the three consortia were shortlisted for the Post Office project last July, a winner was promised by the start of this year. In the event an announcement was not made until mid-May.

Meanwhile bidding costs for the three consortia have been estimated at more than £50m for the private sector alone.

Even PFI supporters such as Sema Group, the Anglo-French computer services company, argue that many projects that have gone through the lengthy PFI process were unsuitable and have subsequently had huge costs with little return.

"PFI will work better when the supplier is required to provide the complete service, or is given the flexibility to provide a major service element of a capital project," argues Vin Sumner, Sema's public sector marketing director. "It is more likely to fail if suppliers are asked to only look at infrastructure-led projects."

Mr Sumner also argues that while it is correct to assume that the IT supplier, "is in the best position to manage some risk, the level of risk transferred to the supplier needs to be appropriate and manageable."

Others have complained that the PFI discriminates against smaller suppliers wanting to bid. "The high costs involved in the bidding process, the levels of security and good standing required of the successful supplier, and the levels of risk to be handled by the private supplier, all work in favour of larger suppliers," says David Barrett an IT specialist with lawyers Dibb Lupton Broomhead.

Mr Barrett agrees that the participation of smaller suppliers in PFI projects is a "difficult issue". But he adds: "Those in charge of the taxpayer's purse have responsibilities to ensure that suppliers are resilient organisations which are large enough to shoulder the responsibilities.

"Therefore, smaller organisations need to find different ways of participating – perhaps as part of a consortium, or as a stakeholder in a joint venture, or as a subcontractor to a prime PFI contractor."

■ **Prisons:** by Alan Pike

Builders escape worst problems

Negotiating with a single agency has made it easier for consortia to strike deals

Private sector managers, struggling with tortuous negotiations on PFI contracts, may sometimes feel like competitors in an unwinnable board game where every throw of the dice lands them on "Go to Jail".

But a visit to jail such as those being built at Fazakerley, Liverpool, and Bridgend, South Wales would restore managers' spirits.

The two prisons, Altcourse at Fazakerley and Parc at Bridgend, were the first large capital projects to ba finalised under the Private Finance Initiative. They prove that, however great the difficulties that have been encountered in negotiations on some early PFI schemes, success is possible.

Work started at Altcourse at the beginning of the year. With the 19 buildings on its campus-style development already taking substantial shape, there are prospects of the prison being ready for occupation within two years of the contract being signed, a fast timetable compared with conventional prison building projects.

The Altcourse contract was won by Fazakerley Prison Services, a consortium of Tarmac and Group 4, which has also been chosen as the preferred bidder to design, build, finance and manage two new Secure Training Centres for persistent juvenile offenders proposed by the government.

Parc will be built and run under the PFI by Securicor Custodial Services, a consortium of Securicor, John Seifert, WS Atkins, Costain and Skanska International.

The private sector already manages a small group of state prisons, and operates escort services taking prisoners to and from court. This has enabled companies such as Group 4 and Securicor to gain some experience of providing custodial services, which until the 1990s were entirely public-sector activities. But Fazakerley and Bridgend are the first examples of the private sector financing, designing and operating entire prisons.

Although the government's introduction of private management in prisons remains controversial – prison reform groups protest that only state servants should be entitled to supervise individuals who are deprived of their liberty – PFI has entered the Prison Service considerably more smoothly than some other Whitehall departments.

"Dealing with the Prison Service, a single, central agency, has certainly been an advantage," says James McCormack, assistant managing director of Tarmac's PFI unit. "Things are far more fragmented and potentially more difficult io areas such as health, where services are managed through a large number of separate institutions."

This does not mean the Prison Service negotiations were routine. One of the biggest difficulties arose over the government's initial insistence that its standard corrupt gifts clause should be included in the contract. This has the effect of allowing the government to terminate a cootract without compensation at any time if it obtains evidence that bribery has taken place.

"Such a clause migbt be acceptable to a company supplying paper cups to a government department, but our bankers simply refused to entertain it on a 25 year long contract for an investment of this size," said Bruce Johnston, a partner with Wilde Sapte, the solicitors representing Gronp 4 and Tarmac io tbe negotiations. After long discussions involving the Prison Service, Treasury and the Private Finance Panel, a compromise was agreed.

A further problem arose over insurance. Since Altcourse and Parc will be Britain's first privately-owned prison buildings, there is no precedent for what would happen if the operators ever found themselves unable to obtain insurance cover, particularly against riots. This problem, said Mr Johnston, was eventually resolved by the government agreeing to become insurer of last resort if, through no fault of the contractor, insurance became unavailable in the market.

However, Neville Simms, group chief executive of Tarmac, emphasises that not all difficulties in PFI negotiations involve conflicts between the public and private sectors.

"Private sector partners have to reach agreement among themselves as well. Tarmac's board takes the idea of entering into 25 or 30 year commitments very seriously. We are talking about large scale projects, involving private sector partners from different backgrounds who may not have worked together before, and commercial relationships with banks. Getting everyooe's agreement in these circumstances is bound to take time and effort."

Precast units being craned into position at Fazakerley

Altcourse will give Tarmac and Group 4 a showcase to promote further ventures into judicial services. Its campus design, with buildings occupying 20 acres of a 66 acre site, will accommodate 600 inmates in six two-storey house blocks. Factory-made units of four cells, with built-in ducts for electrical and plumbing services, are constructed at Tarmac Precast Concrete's Somerset works and are craned into positioo on site. This technique is expected to shorteo tbe building programme by several months. Construction costs are about £70m.

Parc prison will house 800 prisoners, and the Securicor consortium plans to operate it in liaison with community institutions: prison education and training programmes will be provided by Bridgend College, and medical services by Bridgend and District NHS Trust. Under the terms of the PFI contracts, both prisons will become government property after 25 years.

■ **Defence:** by Quentin Carruthers

Deals lie behind the frontline

Contracts are reserved for non-combat services and works projects

PFI sbelters somewhere behind tbe frontline in defence. As in the bealth sector, where PFI is restricted to construction and ooo-clinical services, so in defeoce PFI is reserved for oon-combat services and works projects. The risks of failure are less catastrophic and specificatioos can be relaxed to allow for the "innovative solutions" expected of a PFI teoder.

Of the few Ministry of Defence cootracts that have beeo awarded through PFI so far, two coocero the provision and servicing of defence suppon vehicles: the £35m RAF white fleet project was awarded to Lex Service in July 1996, and the £27m project for the provisioo of material baodliog equipment (MHE) to depots was awarded to Cowie Interleasing in September 1996.

A tbird defence support vehicle project – the £50m replacemeot of 3,000 vehicles in the army white fleet in Germany – is at preferred partoer stage, with Ryder and its sub-cootractor Peterson Howell Heather baving signed cootracts, subject to further successful negotiations in January.

Uoder tbe terms of the MHE project, Cowie will provide and maintain equipment that includes forklift trucks, tractors and trailers, while under tha RAF white fleet contract, Lex will purcbase most of tbe current wbite fleet (non-front line vehicles) used at RAF stations across the UK, numbering some 2,750 RAF cars, vans and mini-buses, and will be responsible for providing and servicing replacement vehicles.

Housing and office accommodation has also been considered acceptable for PFI treatment. Two projects for providing managed accommodatioo at RAF Cosford and RAF Halton are in early stages of PFI procurement, and another £64m project to provide a joint services staff college has reached shortlist stage.

However, one bidder – led by Tarmac – has dropped out, leaving three parties in the running: Laing and Serco; the "Quality Command" consortium led by WS Atkios; and. Taylor Woodrow.

Increasingly, the MoD is turning to PFI for the procurement of training services and facilities. On October 1, FBS was announced as the preferred partner in a £400m programme to provide aircraft and support facilities for a helicopter flying scbool based across Shawbury and Middle Wallop.

> Tafmis is one of a number of PFI projects in which EDS has become involved

The FBS consortium comprises FR Aviatioo, Bristow Helicopters, and Serco. "It [tbe contract] means stability for our staff and its excellent news for our local area," says Peter Ashleigh-Thomas, the chief executive of FBS. "Overall there will be significant job increases."

One of the competitors that lost out in the bidding for the helicopter flying scbool, Short Brothers, is up against the FR Aviation-Serco combination again, in the bidding for a £30m project to provide flying training and support services for the RAF. The announcement of a preferred partner is expected to be made in early 1997.

Information technology is another field that appears to lend itself to PFI in every government department, the MoD being no exception. Tafmis, the Training Administration Financial Management Information System contract, was awarded to EDS Defence in August.

The £25m project involves the installation of an IT system to provide financial reporting and management support for the Army Individual Training Organisation.

Tafmis is one of a number of PFI projects io which EDS, the US-owned multinational, has become involved. EDS is also one of tbe two bidders shortlisted for the £60m project to implement a payroll system for the combined armed forces, the other bidder being Siemens.

In the IT field, the same bidders compete across every government department, and the differences between government sector become a secondary consideration.

In mid-September, for example, the Treasury announced that EDS had been awarded the seven-year contract for the provision of a new Local County Court System (LOCCS), with a £20-25m bid estimated to be about half the price of tenders submitted by its two rivals, Siemens Business Services and Sema Group. In the transport sector, EDS is a member of the Transys consortium that has been left as de facto winner of London Underground's £200m Prestige ticketing project, after the withdrawal of the other bidder Syntegra, a subsidiary of BT.

BT has stayed in the running for the Defence Fixed Telecommunications System project, estimated to be worth £1bn over the 10-year life of the contract. BT, the incumbent supplier of the system, has said nothing about its final bid for the contract, but Racal, a veteran MoD supplier acting in the "Rampart" consortium alongside Logica and WS Atkins, has made a strong pitch to win the project. A decision on the winner is imminent.

■ **Property:** by Simon London

New landlords take on the risk

The building and managing of government offices is being farmed out

The provisioo of government office accommodation is arguably tbe most fertile ground in which the Private Finance Initiative can take root.

The introduction of private capital into public sector property is neither new nor politically contentious. As some of the UK's largest office occupiers, government departments are keen to distance themselves from the messy business of owning and managing buildings.

Their eagerness to embrace PFI was increased earlier this year by the abolition of Property Holdings, the central agency which managed government office space. Instead, departments assumed full responsibility for their own accommodation, advised by Property Advisers to the Civil Estate, a new and much smaller agency.

Private sector bidders are also familiar witb the principles of providing and servicing offices for government tenants. Unlike health or education, the skills required to build and manage offices are widely available in the private sector. The challenge bas beeo to assemble consortia to manage projects from start to finish.

Early experieoce suggests that successful PFI bidders need to include skills in construction, property development, facilities management and finance.

The Exchequer Partnership selected as preferred bidder to refurbish the Treasury headquarters in Whitehall includes Stuart Lipton, the property developer, Bovis, the construction company, Chesterton, the property agent and facilities manager, and Hambros, the merchant bank.

While the Treasury contract is regarded as a PFI flagship because of its high profile, a number of provincial projects are further advanced.

The Department of Social Security has chosen a con-

> Payments by the government will depend on satisfactory provision of services

sortium led by Amec, the construction group, to rehouse 13,000 Contributions Agency staff in Newcastle, Tyne & Wear, in a contract worth about £150m.

On a smaller scale, the Inland Revenue announced that it had selected a consortium led by construction company Mowlem to provide a new building for 630 staff in Bootle, Merseyside.

The Inland Revenue has also selected its preferred bidder to provide new buildings in Manchester and Stockport. Customs & Excise is close to finalising a contract in Southampton.

The unanswered question is how these contracts will be financed.

In each case the winning consortium is being asked to commit to much more than the provision of a building for fixed rental payments.

In line with the risk-transfer ethos of the PFI, private sector consortia will also provide facilities management services, and in some cases provide the government with more flexible terms than under conventional commercial property leases. These features differentiate PFI contracts from traditional property contracts, which offer landlords a predictable flow of income over as much as 25 years.

Instead, payments by the government – known in PFI jargon as accommodation charges rather than rent – will depend on the satisfactory provision of services.

This helps explain why most large landlords – such as property companies and institutional investors – have been relnctant to embrace private finance projects. From a financing perspective, the deals have more in common with project finance.

Funding for PFI projects will have to come in several stages. Finance will be required to provide cash for the construction of new buildings. Long-term debt will bave to be put in place to refinance these construction facilities once the tenant starts to pay regular accommodation charges.

But the structure of PFI leases means that the private sector operator can not be sure of receiving a fixed rental income. At Newcastle, for example, the DSS has demanded options to vacate buildings in future if it faces a substantial reduction in manpower.

Private sector bidders will have to decide bow much of the income is reliable enough to service senior debt, with the remainder of the cost supported by mezzanine finance and equity.

Most larger transactions are likely to involve capital markets with the issue of bonds or commercial paper.

The single most ambitious property-related project is the DSS's proposal to transfer to the private sector more than 700 offices across the country. This represents virtually the entire DSS estate outside Newcastle. The contract to provide and service accommodation for up to 25 years could be worth up to £3bn-£4bn.

The department decided to go for a "big bang" approach, rather than splitting the estate into regional packages, in the hope of providing a transaction large enough to attract international capital.

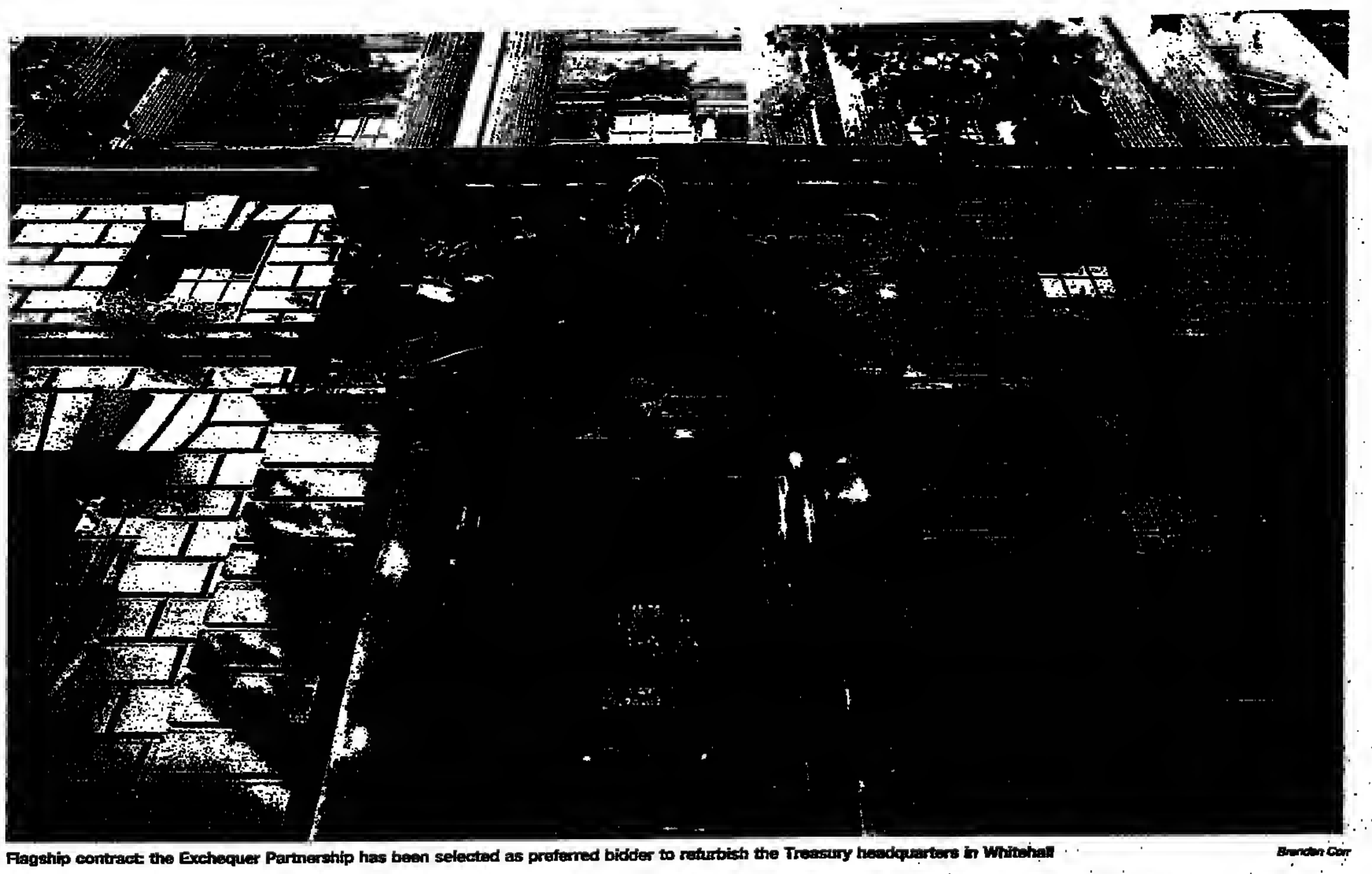
The initial response to its proposals suggests that this objective has been achieved. Four of the six bidders on its shortlist are led by overseas financial institutions.

The DSS hopes later this month to select three candidates to go forward to a final round of bidding.

It is still too early to tell whether the large-scale approach will be a success or not. So far the bidders know very little about the detailed structure of the DSS estate or the potential value of the assets. But if the department can succeed with such a large-scale transfer of assets, the implications for the UK property market could be significant.

Other government departments are doubtless wondering whether they should follow the trail blazed by the DSS. In theory most office buildings occupied by departments could be transferred in the same way.

Large private sector office occupiers such as utilities and financial services companies must also be considering the PFI route, complete with risk transfer and flexible leases.



Flagship contract: the Exchequer Partnership has been selected as preferred bidder to refurbish the Treasury headquarters in Whitehall Brendan Corr

■ **Industry attitudes:** by Alan Pike

Public sector changes its role

PFI may see the state turning into a contractor rather than a service provider

PFI will transform more than the capital budgets of public anthorities if, as is probable, it is bere to stay.

The spread of the initiative would further dilute the notion of public services as they were once traditionally defined – delivered by public employees from publicly-owned buildings.

It would accentuate a sbift, wbicb bas been in progress since the introdnction of competitive tendering, towards tbe pnblic sector becoming a contractor rather than provider of services.

Monitoring contract standards is developing into a fundamental new responsibility for public authorities, and PFI will increase pressures on the public and private sectors to plan and work together.

The impact on companies that are involved in PFI promises to be equally profound. Some of the consortia that have been set up to bid for early contracts are consolidating their individual skills within firm, lasting PFI partnerships.

It is probable that the new PFI management companies will emerge, or develop from established facilities management gronps.

While PFI is an innovation in its precise form, many of the skills needed to operate pnblic sector schemes are long-established in facilities management companies snch as Serco, whose corporate development director, David Steeds, was this month recruited as chief executive of the Private Finance Panel executive.

Increased financial capacity will also be required if

> The CBI report warned that PFI was in 'urgent need of tuning'

PFI's development is not to he stunted hy insufficient equity.

But PFI must first demonstrate that it is going to become a central feature of future public procurement, rather than a relatively marginal scheme.

Ministers believe it will eventually prove as inflnential as privatisation – and that Britain's PFI expertise will become sought-after internationally – but the business community is still waiting to be convinced.

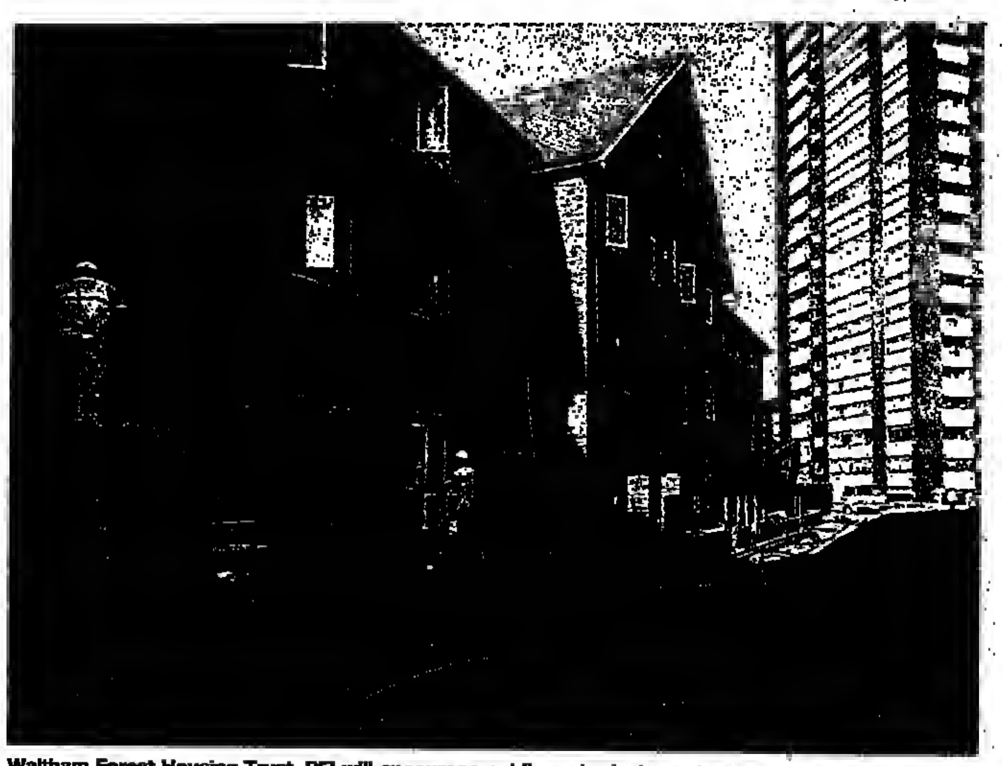
In the summer, an influential report by the Confederation of British Industry gave unhesitating backing to the principles of PFI but warned that it was in "urgent need of tuning and better management".

The report spoke of a "deep frustration at the waste of resources occuring as both the pnblic and private sectors scale the learning curve".

Considerable consultation took place between CBI and Treasury officials while the report was being compiled, and some indnstrialists were disappointed that Kenneth Clarke, the chancellor, did not immediately pick up on its recommendations wben be addressed a CBI conference that was held to coincide with its publication.

Many industrialists are warning privately that the degree of willingness to overcome the obstacles to PFI's progress sbown by ministers this autumn will be vital in retaining the confidence of the business community.

The CBI report addressed botb practical log-jams to PFI's growth and many of the wider issues associated with its introduction – business was deeply concerned, it warned, that PFI was being "misused as an additional excuse for the government to cut back on capital investment."



Waltham Forest Housing Trust. PFI will encourage public and private sectors to co-operate David Jones

■ **Transport:** by Charles Batchelor

Public funds secure deals

Government money has been allocated to keep two significant projects on track

The transport sector has provided some of the largest and most spectacular deals to be carried out under the government's private finance initiative in recent months.

It has also been the source of some innovative financing deals, which the bankers and advisers involved believe will be adopted by other PFI sectors.

The prospect of a change in the way PFI schemes are arranged if Labour wins the general election due by May 1997 does not seem to have dampened private sector interest in the initiative.

This is in part because Labour has said it will continue with what it calls "public private partnerships" and partly because it is unclear how Labour would handle them differently.

Labour does speak of using public funds "to generate the maximum social return," which suggests there might need to be a greater public sector input, and of setting out a clearer policy framework for projects, which would also be welcome.

But its idea of "achieving a better division of risk between contractors, operators and investors" raises more questions than it answers. The government has already been accused by the private sector of attempting to transfer too much risk.

Yet retaining more control, and presumably more risk, in the public sector suggests there would need to be an increase in the size of a Labour government's contribution to individual projects. However, Labour has made clear it has no extra funds to devote to transport.

The present government, meanwhile, is attempting to push ahead with its PFI programme as fast as possible. A £3bn contract to build the 68-mile Channel tunnel high speed rail link was signed with the winning consortium in March while the deal for the smaller Docklands Light Railway Lewisham extension, valued at about £220m, was concluded earlier this month.

But for all the government's optimism about the private sector taking over the financing and management of large infrastructure projects, it has had to temper its hopes with realism.

The private sector has not been willing to put in the large sums originally expected by government ministers because of the long-term nature of transport projects and the frequently slow payback. This has meant that both the Channel tunnel rail link and the Lewisham DLR extension, which the government hoped would be funded fully in the private sector, have required public funds.

The 999-year concession to build and operate the high-speed rail link was won by the London & Continental Railways consortium with the promise of a government cash injection of £1.4bn as well as the transfer of ownership of the Eurostar train services and large areas of railway land.

Eurostar was intended to provide an income stream during the early years of the project before the line was opened but in the initial stages it has proved a burden on the consortium, losing up to £20m a month. LCR is strengthening the marketing of services however and hopes to reach break even by the first half of 1998.

The high-speed link will allow international express trains to run at speeds of up to 170mph in the UK and cut more than 30 minutes off journey times between London, Paris and Brussels. When the link opens in 2003, the Channel tunnel itself will have been in operation for nine years though the delays have more to do with government dithering in the early planning stages than the length of the PFI negotiations.

> The consortium has to spend £2bn of its own money before a contribution is made by the government

The seven consortium members have committed an initial £100m in equity capital to the project and have financial commitments from their bankers for the rest of the £150m-plus needed for the first stage of the project. Stock market funds will be tapped when the company seeks a listing in early 1998.

Although the government has been forced to put taxpayers' money into the venture, the consortium will be required to spend £2bn of its own money and have completed two-thirds of the project by value before any direct cash contribution is made by the government in 2000.

At the other end of the PFI scale is the Lewisham extension of the Docklands Light Railway, which will take the rail system under the Thames into south London for the first time. The early experience of the DLR, when design failings and the sheer unreliability of performance forced London Transport back to the contractors several times for expensive upgrades, strengthened the government's resolve to do a watertight deal.

Tight performance standards have been imposed on the City Greenwich Lewisham Rail Link consortium which has been awarded the 25-year concession to build and maintain the three-mile line. The consortium will not run the trains – these will be provided by the eventual winner of the seven-year franchise to operate the entire DLR system – but its earnings will depend on the reliability of the network and passenger numbers.

The extension bears some similarities to the highly successful Queen Elizabeth II bridge on the M25 motorway at Dartford. The bridge and its associated tunnel have a monopoly on journeys across the Thames at that point and have earned revenues far above expectations. The construction loan will be paid off eight years early as a result.

A similar near-monopoly on public transport crossings of the Thames at Greenwich will be enjoyed by the link. It is expected to contribute nearly half the passengers travelling on the DLR network and more than half the total revenues.

The Lewisham extension will be financed in part by a £165m bond with a 9% coupon due between 2006 and 2020 issued by BZW. For the first time in the admittedly short list of PFI bond issues, there is no "credit enhancement" arrangement in place to provide an additional insurance on the risks. Bond issuers pay a fee to a credit enhancement agency which guarantees repayment.

The lack of credit enhancement meant that bond purchasers had to make a thorough assessment of the risks involved instead of relying, in part, on the credit enhancer to cover the risks. Issuing a bond at the outset also locks the construction consortium into a repayment schedule, notes Tim Treharne, managing director for project finance at the Bank of America.

"It will be interesting to see how these bonds compare with the alternative approach of arranging bank finance for the construction period and then refinancing with bonds once it is built. Renegotiating the terms of a bond would be more complicated – if not impossible – than renegotiating a loan deal with the banks."

A 25-year £165m eurobond issue was used in March to raise part of the finance for the 30-year concessions won by the Road Management Group to upgrade and maintain the A1(M) in Cambridgeshire and the A417/419 trunk roads in Gloucestershire. This was the first time that a PFI scheme had been financed through the capital markets.

Eurostar was intended to supply the consortium an income, but it is losing up to £20m a month Reuter

Public sector changes its role

Continued from page 8

Even when PFI targets were taken into account, total publicly sponsored capital investment was set to fall 12 per cent in real terms between 1992-93, when the initiative was launched, and 1998-99.

PFI, emphasised the report, was a tool and not a panacea. Resources were wasted when it was applied inexpertly or on unsuitable projects. Both the public and private sectors must manage it better by refining policy and processes, adapting culturally and acquiring new skills. Otherwise, warned the CBI, "frustrated workmen will blame the tool – and the initiative will fall victim to target shortfalls, excessive costs and unrealised gains".

The government, commented the CBI, has pursued PFI with "some force". Cuts in conventional capital spending had left the construction industry, in particular, with no alternative but to pursue PFI business. Yet PFI brought together public sector clients and private sector resources in a new and complex way, and force alone would not embed the initiative. The new market needed to be fostered.

Jeremy Peat, chief economist of the Royal Bank of Scotland, is a member of the CBI's PFI steering group which produced the report. He believes "prioritisation and focus", in place of the requirement that government departments must consider all projects as potential PFI schemes, is essential to put the initiative on a firmer footing.

"The scattergun approach may have been appropriate to get PFI started," he said. "But now the need is to concentrate on projects which are both pressing in national economic terms and make sense as PFI schemes. Focusing on a narrower range of appropriate projects is, in my view, the first crucial step to take."

Mr Peat, himself a former civil servant, understands the constraints that public officials face but argues that there must be a change of culture in the public sector. Caution and attention to minute detail is, he argues, making PFI negotiations more protracted and expensive than those that take place on either purely private sector or purely public sector projects.

"There is a need for someone very senior in government to act as PFI's watchdog and guardian, taking real responsibility and making it clear in Whitehall that the government wants PFI deals to happen."

Mr Peat believes that the National Audit Office should be able to examine a range of PFI projects within government departments, rather than being required to conduct examinations on a project-by-project basis.

This would, he suggests, give a clearer picture of how PFI was developing as well as encouraging more flexibility in negotiations. And he says the introduction of model clauses must go a lot further to help reduce the current high level of PFI bidding costs.

The CBI report contains an alluring list of benefits that might flow from PFI:

- Better value for money as the private sector makes capital work at higher capacity, and responds to financial incentives to introduce innovative operating techniques.
- Improved government planning, replacing stop-go capital spending with a steady stream of service payments.
- A new business sector with export potential if the UK became a world leader in PFI deals.

With so much to play for, PFI's supporters hope its promise will not diminish as private sector interest fades amid wrangling over contract terms.

Favourable PFI project characteristics identified by the CBI

- Output/service delivery chain
- Substantial operating context within the project
- Significant scope for additional/alternative uses of the asset
- Scope for innovation in design
- Surplus assets intrinsic to transaction
- Long contract term available
- Committed public sector management
- Political sensitivities manageable
- Risks primarily commercial in nature
- Substantial deals (through mega-projects have their own difficulties)
- Complete or stand-alone operations to allow maximum synergies

Note: none of these conditions will themselves guarantee success but they point in a particular direction and allow for a more informed decision

PROFILE Croydon Tramlink

Trams back on the rails

A revival project is a response to road congestion. But it needs private money

There is a certain irony in the fact that Croydon, a town substantially rebuilt in the 1960s in order to accommodate the car, should be the first suburb in London to welcome back the tram.

However, by late 1999, if everything goes according to plan, Croydon will celebrate the return of trams to the capital after a gap of 48 years.

The last old-style tram, a double-decker, ran in London in 1952. Its contemporary counterpart will be a lightweight single-decker with a low floor to allow easier access and it will contain the latest in electronic systems.

The 99-year Croydon Tramlink concession to build and operate an 18-mile tram network has been won by the Tramtrack Croydon consortium. This comprises:

- CentreWest, a London bus operator;
- Bombardier Eurorail, a train and tram manufacturer;
- Two contractors, Sir Robert McAlpine and Amey Construction;
- 3i, a development capital group; and
- the Royal Bank of Scotland.

Preparatory work, including boring to check the position of gas pipes and electricity cables, has begun but large-scale construction work will start next year.

Financing of the £200m deal under the private finance initiative will be split roughly equally between the private sector and the government. The project's value comprises £180m of capital costs and £20m of interest charges. In addition, the government will pay for £25m worth of work to move utilities' pipes and cables.

The government had earlier hoped that 70 per cent of finance would come from the private sector. But restrictions on rail ticket price rises introduced at the time of the privatisation of British Rail reduced revenue projections and made a larger public sector contribution necessary.

Even so, 50 per cent represents a larger private sector contribution than occurred on other recent UK tram projects. It reflects the higher level of public transport fares in London and the high forecasts for passenger use because of the congestion experienced on local roads.

Estimates made in 1993 suggested that annual revenues would amount to £14.6m compared with costs of just £6.2m though these figures do not include project financing costs and they have since been revised. More recent numbers are confidential, however.

These figures gave the Tramlink a higher ratio of benefits to costs than any other London transport scheme with the exception of the Lewisham extension to the Docklands Light Railway.

The finishing touches are still being put to the financing arrangements for the Tramlink, but leasing finance, provided by Lombard North Central, part of the National Westminster Bank group, is expected to account for about 70 per cent of the private contribution with bank debt making up the rest.

The leasing arrangements run for 23 years – the expected life of the trams – though the leases also cover track and other equipment. The bank loans for 20 years are being provided by Dai-Ichi Kangyo Bank, RBS and Bayerische Landesbank. Unlike the financing for the Lewisham extension of the Docklands Light Railway agreed earlier this month, there is no bond issue involved.

"This project involves innovative and robust financing which will cover the operational phase as well as the period of construction," says Tony Poulter, head of project finance at Price Waterhouse, advisers to Tramtrack.

The winning consortium has taken on the risks that are associated with the design, financing, maintenance and operation of the system. Its financial forecasts depend on passenger numbers reaching the 25m-28m a year which have been forecast.

The Croydon Tramlink will make use of disused or under-used railway track for part of the route but will run through central Croydon at street level.

The routes will form a three-pointed star linking Wimbledon to the north-west of Croydon town centre with New Addington to the east and Beckenham Junction to the north-east. A fourth short spur goes to Elmers End in the north-east.

The construction of Croydon Tramlink is in part a response to a lack of orbital routes around London, where the train and underground networks in the outer suburbs mainly provide radial links to the town centre, and to the inflexibility of rail services. Buses provide most orbital routes but they suffer from road congestion.

Croydon will become the fourth British city to install a modern tram network after Manchester, Sheffield and Birmingham. Manchester led the revival of the tram with its first line in 1992, running on former railway track for large parts of its length in the outer suburbs. It is now working on several extensions.

Meanwhile, construction of Birmingham's Midland Metro network began last November.

The UK scrapped its trams and electrically powered trolley buses in the 1950s in favour of diesel-powered buses while many European cities retained and modernised their networks. In the US cities such as Denver, Cleveland, Baltimore and St Louis have installed modern tram systems.

The revival of the tram owes much to increasing car congestion, the environmental acceptability of the tram and its popularity with passengers. For passengers, trams represent a better guarantee of a long-term, reliable service than buses.

They are much more expensive, however, and for this reason the government has warned that there are limits on the number of cities where they can be built. Private finance is also a pre-requisite for new tram systems.

Charles Batchelor

Taking root

Continued from page 1

The reason for these delays has been wide-ranging. For example concern by bankers that the liabilities of bankrupt trusts might not be met by government was dampened but not assuaged by emergency legislation passed by the government in March.

And while the first contracts should be signed imminently, officials acknowledge that affordability issues at several projects are now so serious that negotiations for some hospital deals are unlikely ever to be closed.

Some analysts also fear that the problems experienced by the NHS could be repeated in local government and education. "There are difficulties [in these areas] because they are very decentralised with a large number of projects being led by a large number of different bodies," warns Jason Fox, a partner at solicitors Herbert Smith.

Nevertheless, the government is confident it can avoid the pitfalls that have delayed the first hospitals by targeting flagship projects more carefully to establish successful templates.

Although many contractors believe schemes such as schools or university residences are too small to be worth spending a lot of money on full bids – John Laing for example has announced it will no longer bid for any project worth less than £30m – experiments are under way to see if several projects can be pooled to create the necessary economies of scale.

And while the present difficulties may still seem pressing, a vision of what kind of companies would best respond to a PFI-driven future is starting to emerge.

One of the most significant events of the past year has been the establishment of dedicated investment funds for PFI projects. BZW, Charterhouse and CIBC Wood Gundy have set up their own groups and the first independent PFI fund, Innisfree, closed in September after raising £85m from institutional investors.

Provided the trend continues, the introduction of these independent equity contributions to PFI projects will allow overstretched contractors to recycle capital more rapidly. "It should end capacity constraints," says one analyst. "Contractors are really not the right people to be holding equity."

That leaves the door open for the creation of a new class of "infrastructure owning" companies driven by operators, such as big facilities management firms, rather than the contractors. Other firms with substantial experience in infrastructure and service provision, such as the privatised utilities, could also become big players in the market.

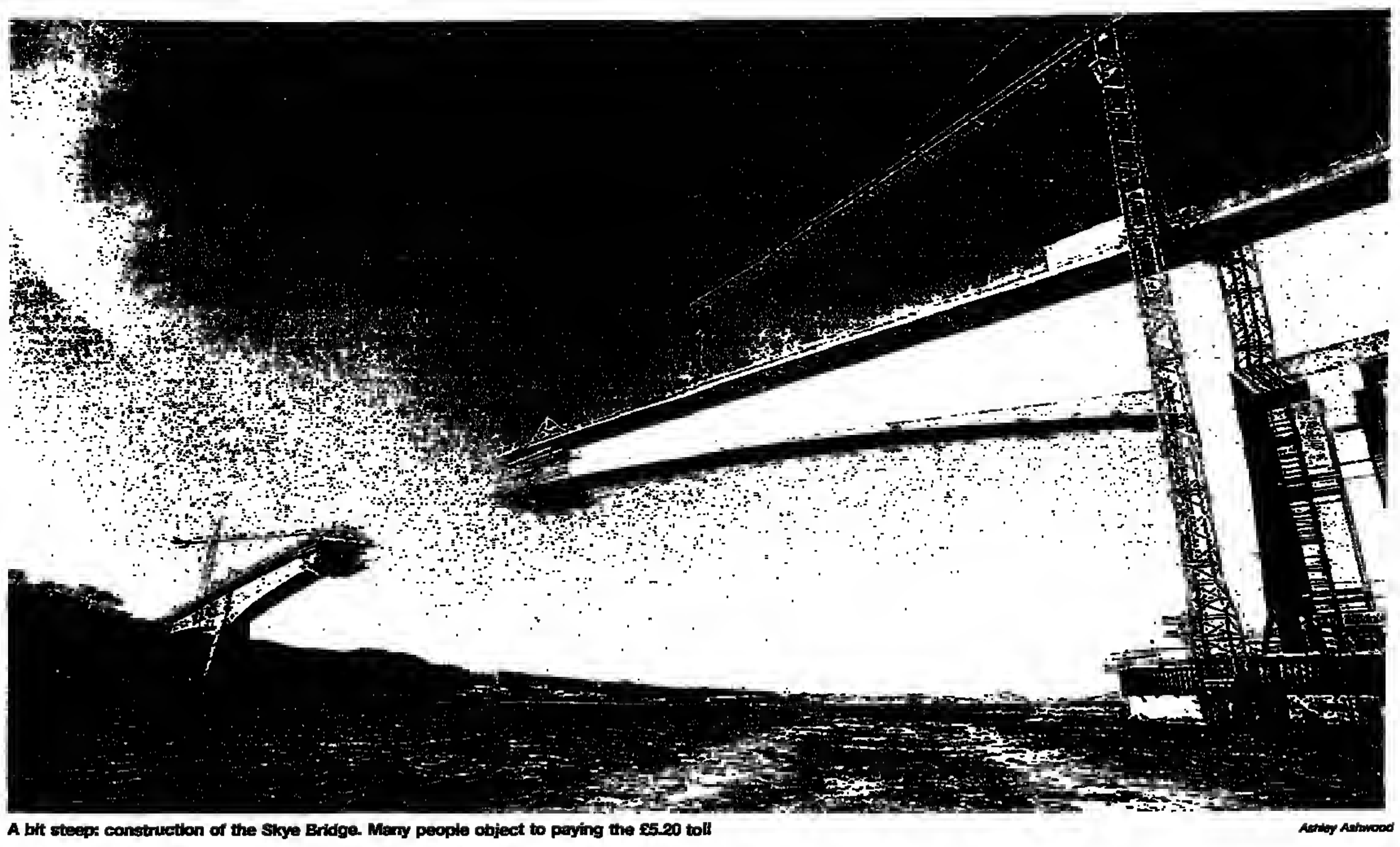
The impetus for such a development derives from the fact that while most attention focuses on the capital cost of projects, the real money in PFI is derived from the service payments.

The Treasury estimates that the potential PFI projects so far identified by the Private Finance Panel have a combined capital value of at least £25bn, compared to a Net Present Value for their cumulative service costs of between £40-60bn.

Reflecting this David Metter, managing director of Innisfree, says investors are more likely to target companies that specialise in PFI as a sector rather than individual projects. "The new wave of PFI firms is only just emerging," he says. "Ultimately they are going to represent a new asset class for institutional investors."

However, even optimists admit that the development of such companies will take some time – and is dependent on the first wave of PFI projects getting successfully up and running in all sectors. That in turn requires not only new project signings but visible success on those already under way.

Alastair Ross Goobey, chief executive of Hermes and chairman of the Private Finance Panel, says this will take time. "The critical judgment will be after five years as to whether you have got value for money in the form of services delivered more efficiently and effectively than would otherwise be the case."



A bit steep: construction of the Skye Bridge. Many people object to paying the £5.20 toll

Ashley Ashwood

■ **Scotland:** by James Buxton

Public image at a low point

Costly tolls on the Skye Bridge have not given PFI a good name in the country

The Skye bridge enjoyed a rare piece of good publicity the other day. The Scottish Office announced that the number of vehicles using it in its first 10 and a half months of operation was 18 per cent higher than those using the ferries before it opened, and that coach traffic was up 40 per cent.

The bridge is the first example in Scotland of the private finance initiative. It was financed by a consortium of the construction companies Miller Group of Edinburgh and Dywidag of Germany who built it, with Bank of America. Skye Bridge Ltd hopes to pay off its £25m debt in about 15 years through tolls.

But a one-way crossing by a car in summer without a season ticket costs £5.20 which on Skye is considered very steep for a bridge whose central span is only 500 metres long. Many people object to paying tolls altogether and a test appeal by a man fined for refusing to pay should come to court soon.

The Skye bridge does little for the public image of PFI in Scotland. But the main concern of construction companies, bankers and professionals in Scotland's substantial PFI industry is the long time it has taken to bring other major Scottish PFI projects to the point of signing contracts.

Scotland is seen by the government as a promising area for PFI because it is compact and because, unlike in England, most projects involve a single government department, the Scottish Office.

Scottish construction companies and banks have risen to the opportunities both in Scotland and across the border. So have firms of solicitors such as Dundas & Wilson and Shepherd & Wedderburn, which constantly find themselves on different sides in negotiations.

Noble & Co, the Edinburgh finance house, has set up Canmore in partnership with MPM Adams, the Glasgow project managers, to specialise in facilities management contracts.

Those in the private sector expect some significant projects to go ahead in the next few months. One of them is the scheme for completing the M6/M74 motorway, which runs from the border to Glasgow.

The Scottish Office wants the final 18 miles to be built on a design, build, finance and operate basis, with the winning consortium operating 60 miles of new motorway for 30 years. The capital value of the contract is put by the Scottish Office at £130m.

The Scottish Office is now evaluating bids resulting from the tender process and the contract is expected to be let early in the new year, with the winner likely to be either a consortium involving Laing and Tarmac, or one with Sir Robert McAlpine and Taylor Woodrow.

Scotland is unique in Great Britain in still having a publicly-owned water and sewerage industry, after the government backed away from privatising it. Instead it transferred the industry from local authorities to three new water authorities, which must now make big investments to satisfy new EU quality standards.

The authorities are making a start. The pathfinder PFI project is a £49m scheme to provide sewage treatment services to Inverness and Fort William on a build, own and operate basis.

After long delays, caused partly by the reorganisation process, contracts should be signed shortly between the North of Scotland Water Authority and Catchment, a consortium that includes Bechtel, Morrison Construction and North West Water.

Once it is signed the pattern should have been set for two other big schemes: the £132m Almond valley trunk sewer and Seafield sludge incineration projects for East of Scotland Water Authority, and the £58m Shieldhall and Daldowie sludge treatment centres for West of Scotland Water Authority.

In the health sector contracts have been let on three small projects in Scotland but the major ones have further to go and may be afflicted with the same problems of affordability that are delaying hospital PFI schemes in England.

A consortium that includes BICC, Morrison Construction and Royal Bank of Scotland has been named preferred bidder for a new hospital to replace Edinburgh's Royal Infirmary, a scheme whose capital value has been put at £180m.

For another big Edinburgh scheme, to refurbish the Western General hospital, a consortium involving Miller Group, Building and Property Facilities Management and Scottish Hydro-Electric has been named preferred bidder.

Morrison Construction, which secured a stock exchange quote last year, has made a serious effort to equip itself to win PFI contracts – it initially set up its own PFI forum and recruited former cabinet minister Lord Parkinson to chair it.

But Mike Martin, who is in charge of PFI contracts, complains about the long time it has taken to move from prequalifying to signing a PFI contract on a road in England. "It took about two years. We can't possibly continue with this level of time and expense," he says.

"Under the normal contract procedure it would cost Morrison only about £30,000 to bid for a £30m to £40m contract. But these early projects it is costing us about £2m.

"Half the money," he explains, "is spent putting in the bid, and the other half is spent after the bid has gone in. That is OK if by then you are the only bidder. But there is now a tendency to negotiate with two bidders which I regard as a step too far."

Jeff Thornton, head of the Royal Bank of Scotland's public sector finance group, acknowledges that "it does take an inordinate amount of time, because we are breaking new ground. The very high legal bills being paid are partly a function of the novelty. At least with DBFO on roads we are getting into our stride. Now we need progress on water and sewerage, and the government must push the hospital projects along."

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CURRENCIES AND MONEY

Lebed sacking sends D-Mark sliding

MARKETS REPORT

By Simon Kuper

The dollar reached a four-and-a-half month high against the D-Mark in London last night after news broke that Russian President Boris Yeltsin had fired Alexander Lebed, his national security adviser.

The D-Mark tends to suffer from perceived Russian turmoil, because of the geographic and trade links between Germany and Russia.

The dollar closed three fifths of a pfennig higher in London at DM1.543. A flurry of US economic data had little impact on the market, with traders awaiting Friday's trade figures.

Sterling gained in the dollar's slipstream, closing 1.3 pfennigs up at DM2.449.

Russian political tensions reduced some of the D-Mark's early gains against the Spanish peseta and the Italian lira. The D-Mark had risen against the "Club Med" currencies thanks to fresh statements by Bundesbank officials that countries wanting to qualify for the single European currency would have to meet strict fiscal and monetary criteria. The D-Mark closed four fifths of a lira off at L998, and 0.13 pesetas higher at 84.24 ptas.

■ In a sign of the pressure on the peseta and the lira, Italy yesterday set up a "strategic committee" for the introduction of the euro. The country said this showed how determined it was to join the single European currency at the earliest entry date. With Prime minister Romano Prodi meeting German Chancellor Helmut Kohl in Bonn last night, Italy is striking back against speeches by Bundesbank directors this week that suggested the lira had little chance of being in the first group for European monetary union.

The foreign exchange markets have become less confident that Italy and Spain will be in the first wave of entrants, but there is little sign of the peseta and lira collapsing, currency analysts said yesterday. Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said: "Convergence isn't quite dead, but perhaps what is dead is the convergence euphoria you had after the Italian budget."

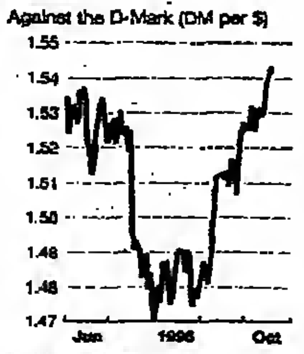
But he added: "So long as investors believe that Spain and Italy will ultimately participate in monetary union, then there is still money to be made in their bond markets." That would be true even if the countries only qualified for Emu in 2002 rather than in 1999, Mr Meggyesi said.

■ Pound in New York

Oct 17	Latest	Prev. close
£ spot	1.5865	1.5845
1 mth	1.5858	1.5838
3 mth	1.5847	1.5811
1 yr	1.5796	1.5770

Dollar

Against the D-Mark (DM per $)



Source: Datastream

He said that the lira and the peseta rebounded in the afternoon largely because of their own strength. The sacking of Lebed was little more than a catalyst. Its impact on the market, though genuine, should not be overstated.

Mr Nick Parsons, currency analyst at Paribas Capital Markets in London, added: "We've seen Russian rumours put four or five big figures on the dollar previously. This time people don't think there's a serious problem in Russia." The foreign exchange markets were currently tracking bond markets, which had reacted fairly calmly to the Lebed news, he added.

■ Mr Parsons said the dollar and sterling were nearing the end of their bull runs against the D-Mark. The dollar would face technical resistance at its year high of DM1.5484. This was because the Bundesbank would be unwilling to see the US currency rise above that to a level where it would threaten German bund prices and create inflationary risks, Mr Parsons said.

He believes the next barrier for sterling was DM2.47. Mr Parsons said: "At that level the balance of risk really does favour profit taking and perhaps a speculative short position."

■ Pressure on Sweden to join the European exchange rate mechanism grew after Mr Hans Tietmeyer, the Bundesbank president, repeated that a link with the ERM was necessary for countries wanting to join the single European currency. The Riksbank, Sweden's central bank, is thought to have intervened in the market twice this week to keep the Swedish crown within a narrow band against the D-Mark. But domestic political pressures make it hard for Sweden to join the ERM on the short term, currency analysts said.

■ OTHER CURRENCIES

Oct 17	£	$
Czech Rp	43.3794 - 43.4434	27.3480 - 27.3780
Hungary	248.129 - 248.302	156.430 - 156.480
Iran	4750.40 - 4758.60	3000.00 - 3000.00
Kuwait	0.4757 - 0.4760	0.2999 - 0.3000
Poland	4.4321 - 4.4386	2.8320 - 2.8350
Russia	8630.51 - 8636.95	5441.00 - 5443.00
U.A.E.	5.8253 - 5.8291	3.6725 - 3.6735

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POUND SPOT FORWARD AGAINST THE POUND

Oct 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2308	+0.0889	230 - 385	17.2386	17.0903	17.1873	3.0	17.1308	2.3	-	-	104.4
Belgium	(BFr)	50.4412	+0.2514	126 - 698	50.6470	50.0910	50.3212	2.9	50.0962	2.7	49.0762	2.7	105.7
Denmark	(DKr)	9.3838	+0.0508	776 - 889	9.3905	9.3175	9.3665	2.2	9.3349	2.1	9.1066	2.0	101.1
Finland	(FM)	7.3129	+0.0337	075 - 182	7.3185	7.2610	-	-	-	-	-	-	84.8
France	(FFr)	8.2759	+0.0316	731 - 787	8.2907	8.2311	8.2592	2.4	8.2285	2.3	8.0908	2.2	108.4
Germany	(DM)	2.4491	+0.0126	481 - 500	2.4520	2.4305	2.4436	2.7	2.4324	2.7	2.3824	2.7	107.4
Greece	(Dr)	382.727	+1.563	576 - 879	383.414	380.076	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9830	+0.0043	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	(L)	2444.48	+11.49	307 - 589	2449.13	2429.56	2449.53	-2.5	2458.08	-2.2	2479.45	-1.4	77.1
Luxembourg	(LFr)	50.4412	+0.2514	126 - 698	50.6470	50.0910	50.3212	2.9	50.0962	2.7	49.0762	2.7	105.7
Netherlands	(Fl)	2.7470	+0.0126	457 - 483	2.7508	2.7282	2.74	3.1	2.7287	3.0	2.6681	2.9	105.8
Norway	(NKr)	10.3794	+0.0338	758 - 829	10.3989	10.2797	10.3684	1.2	10.3579	0.8	10.3059	0.7	98.4
Portugal	(Es)	246.756	+1.159	670 - 843	247.270	244.957	247.001	-1.2	247.381	-1.0	-	-	95.9
Spain	(Pta)	206.293	+1.353	206 - 379	206.513	204.773	206.493	-1.2	206.828	-1.0	207.543	-0.6	79.8
Sweden	(SKr)	10.5626	+0.0658	530 - 721	10.5730	10.4971	10.5618	0.1	10.5599	0.1	10.5513	0.1	90.5
Switzerland	(SFr)	2.0129	+0.0074	121 - 136	2.0156	2.0033	2.0054	4.5	1.9916	4.2	1.9305	4.1	110.2
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	89.0
Ecu	-	1.2756	+0.0056	750 - 762	1.2776	1.2686	1.2738	1.7	1.2703	1.7	1.2526	1.8	-
SDR†	-	1.103770	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5863	+0.0017	859 - 866	1.5882	1.5813	-	-	-	-	-	-	-
Brazil	(R$)	1.6255	+0.0013	251 - 258	1.7357	1.6206	-	-	-	-	-	-	-
Canada	(C$)	2.1461	-0.0009	453 - 469	2.1513	2.1432	2.1425	2.0	2.1358	2.0	2.1091	1.7	85.4
Mexico	(New Peso)	12.3430	-0.0338	327 - 532	12.3604	12.3279	-	-	-	-	-	-	-
USA	($)	1.5865	+0.0017	862 - 868	1.5885	1.5815	1.5858	0.5	1.5849	0.4	1.579	0.5	97.8
Pacific/Middle East/Africa													
Australia	(A$)	2.0030	+0.0006	020 - 040	2.0062	1.9965	2.0047	-1.0	2.007	-0.8	2.0129	-0.5	94.3
Hong Kong	(HK$)	12.2671	+0.0135	645 - 696	12.2815	12.2288	12.263	0.4	12.26	0.2	12.2711	0.0	-
India	(Rs)	56.5588	+0.0228	101 - 074	56.8120	56.3020	-	-	-	-	-	-	-
Israel	(Shk)	5.1485	+0.0769	450 - 520	5.2006	5.0649	-	-	-	-	-	-	-
Japan	(Y)	177.942	+0.204	892 - 991	178.190	177.080	177.092	5.7	175.482	5.5	168.697	5.2	130.6
Malaysia	(M$)	3.9751	+0.0041	739 - 762	3.9800	3.9613	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2650	-0.0092	634 - 665	2.2716	2.2630	2.2728	-4.1	2.2887	-3.8	2.3252	-2.7	111.0
Philippines	(Peso)	41.6774	+0.0539	060 - 487	41.7593	41.5864	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9502	+0.0066	487 - 516	5.9575	5.9319	-	-	-	-	-	-	-
Singapore	(S$)	2.2429	+0.0028	421 - 437	2.2453	2.2358	-	-	-	-	-	-	-
South Africa	(R)	7.2115	-0.0031	061 - 168	7.2443	7.2006	-	-	-	-	-	-	-
South Korea	(Won)	1311.56	-0.63	131 - 181	1313.21	1308.00	-	-	-	-	-	-	-
Taiwan	(T$)	43.6129	+0.0322	888 - 370	43.6521	43.4802	-	-	-	-	-	-	-
Thailand	(Bt)	40.4375	+0.0501	259 - 491	40.4780	40.3040	-	-	-	-	-	-	-

† Rates for Oct 16. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.8609	+0.0441	580 - 637	10.8890	10.7980	10.8412	2.2	10.8009	2.2	10.6253	2.3	104.4
Belgium	(BFr)	31.7940	+0.1235	820 - 060	31.9300	31.6470	31.729	2.5	31.5965	2.5	30.9765	2.6	105.5
Denmark	(DKr)	5.9148	+0.0255	120 - 175	5.9205	5.8865	5.9059	1.8	5.8875	1.8	5.3058	1.8	106.5
Finland	(FM)	4.6094	+0.0161	069 - 119	4.6133	4.5890	4.6006	2.3	4.5879	2.4	4.4934	2.4	84.3
France	(FFr)	5.2165	+0.0142	157 - 172	5.2271	5.2010	5.2077	2.0	5.1897	2.1	5.1075	2.1	107.9
Germany	(DM)	1.5437	-0.0062	434 - 440	1.5454	1.5360	1.5407	2.3	1.5341	2.5	1.5039	2.6	107.0
Greece	(Dr)	241.240	+0.72	190 - 290	241.810	240.140	242.795	-7.7	245.365	-6.3	256.25	-6.3	67.4
Ireland	(I£)	1.5978	-0.0051	970 - 985	1.6036	1.5951	1.5976	0.2	1.5972	0.2	1.594	0.2	-
Italy	(L)	1540.80	+5.55	020 - 140	1544.50	1533.26	1544.6	-3.0	1550.55	-2.5	1568.05	-1.6	76.8
Luxembourg	(LFr)	31.7940	+0.1235	820 - 060	31.9300	31.6470	31.729	2.5	31.5965	2.5	30.9765	2.6	105.5
Netherlands	(Fl)	1.7315	+0.0061	310 - 320	1.7343	1.7234	1.7277	2.6	1.7197	2.7	1.6842	2.7	105.4
Norway	(NKr)	6.5423	+0.0141	413 - 433	6.5575	6.4848	6.5385	0.7	6.5325	0.6	6.5075	0.5	97.8
Portugal	(Es)	155.535	+0.56	510 - 560	155.800	154.850	155.74	-1.6	156.035	-1.3	156.81	-0.8	96.2
Spain	(Pta)	130.030	+0.71	000 - 060	130.120	129.370	130.21	-1.7	130.47	-1.4	131.135	-0.8	79.8
Sweden	(SKr)	6.6578	+0.0341	530 - 625	6.6650	6.6248	6.655	0.5	6.6452	0.8	6.5978	0.9	90.1
Switzerland	(SFr)	1.2688	+0.0033	685 - 690	1.2695	1.2650	1.2644	4.1	1.256	4.0	1.2183	4.0	109.8
UK	(£)	1.5865	+0.0017	862 - 868	1.5885	1.5815	1.5858	0.5	1.5843	0.4	1.579	0.5	88.3
Ecu	-	1.2438	-0.0041	434 - 441	1.2478	1.2414	1.2451	-1.3	1.2483	-1.4	1.2649	-1.7	-
SDR†	-	0.696252	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0246	-0.0003	245 - 246	1.0248	1.0243	-	-	-	-	-	-	-
Canada	(C$)	1.3528	-0.002	525 - 530	1.3566	1.3523	1.351	1.6	1.3469	1.7	1.3323	1.5	84.6
Mexico	(New Peso)	7.7800	-0.03	750 - 850	7.7870	7.7570	7.898	-18.2	8.1645	-19.8	9.025	-16.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.5
Pacific/Middle East/Africa													
Australia	(A$)	1.2625	-0.001	621 - 629	1.2630	1.2620	1.264	-1.4	1.2659	-1.1	1.2714	-0.7	95.8
Hong Kong	(HK$)	7.7322	-	320 - 323	7.7325	7.7318	7.7321	0.0	7.7326	0.0	7.7437	-0.1	-
India	(Rs)	35.6500	-0.025	000 - 000	35.8100	35.4920	35.865	-7.2	36.325	-7.8	-	-	-
Israel	(Shk)	3.2452	+0.0449	436 - 468	3.2770	3.2006	-	-	-	-	-	-	-
Japan	(Y)	112.180	+0.005	150 - 170	112.280	111.640	111.655	5.4	110.66	5.3	106.445	5.1	130.9
Malaysia	(M$)	2.5056	-0.0002	053 - 058	2.5061	2.5045	2.5084	-1.4	2.5138	-1.3	2.5351	-1.2	-
New Zealand	(NZ$)	1.4277	-0.0073	269 - 284	1.4309	1.4265	1.4332	-4.6	1.4375	-2.7	1.469	-2.9	-
Philippines	(Peso)	26.2700	+0.005	300 - 100	26.3100	26.2300	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7540	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4138	+0.0003	135 - 140	1.4140	1.4126	1.4116	1.8	1.407	1.9	1.3858	2.0	-
South Africa	(R)	4.5455	-0.007	430 - 480	4.5645	4.5425	4.5862	-10.7	4.6612	-10.2	4.976	-9.5	-
South Korea	(Won)	826.700	-1.25	700 - 700	827.800	826.680	-	-	-	-	-	-	-
Taiwan	(T$)	27.4900	-0.01	800 - 000	27.5120	27.4780	27.4801	0.0	27.4903	0.0	-	-	-
Thailand	(Bt)	25.4885	+0.0035	860 - 910	25.4990	25.4750	25.5786	-4.2	25.746	-4.0	26.3835	-3.5	-

† SDR rate per $ for Oct 16. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 16: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

October 17	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3¼	3¼	3⅛	3¼	6.00	2.50	-
week ago	3¼	3¼	3¼	3¼	3¼	6.00	2.50	-
France	3¼	3¼	3¼	3¼	3¼	3.35	-	4.75
week ago	3¼	3¼	3¼	3¼	3¼	3.35	-	4.75
Germany	2¾	3¼	3⅛	3⅛	3¼	4.50	2.50	3.00
week ago	3¼	3¼	3¼	3¼	3¼	4.50	2.50	3.00
Ireland	5½	5⅝	5⅝	5½	5½	-	-	6.25
week ago	5⅝	5⅝	5⅝	5⅝	5⅝	-	-	6.25
Italy	8⅝	8½	8⅛	7⅞	7¾	-	8.25	8.38
week ago	8⅝	8½	8¼	7¾	7½	-	8.25	8.38
Netherlands	2¾	2¾	2¾	2¾	3¼	-	3.00	3.30
week ago	2⅞	2¾	2⅞	2¾	3¼	-	3.00	3.30
Switzerland	1½	1⅝	1¾	1¾	1½	-	1.00	-
week ago	1½	1⅝	1½	1½	1⅝	-	1.00	-
US	5¼	5¼	5⅝	5½	5¼	-	5.00	-
week ago	5¼	5¼	5¼	5½	5¾	-	5.00	-
Japan	½	½	⅝	½	½	-	0.50	-
week ago	½	½	⅝	½	½	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5½	5⅝	5½	-	-	-
week ago	-	5⅝	5½	5⅝	5½	-	-	-
US Dollar CDs	-	5.10	5.12	5.21	5.43	-	-	-
week ago	-	5.10	5.17	5.25	5.48	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅛	4½	-	-	-
week ago	-	4⅛	4½	4½	4⅛	-	-	-
SDR Linked Ds	-	3½	3½	3⅝	3½	-	-	-
week ago	-	3½	3½	3⅝	3½	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 17	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 2¾	3⅛ - 2¾	3⅛ - 2¾	3⅛ - 3⅛	3⅛ - 3⅛	3⅜ - 3⅜
Danish Krone	3¾ - 3⅝	3¾ - 3½	3⅝ - 3½	3⅝ - 3½	3¾ - 3½	3¾ - 3⅝
D-Mark	3⅛ - 2⅞	3⅛ - 2⅞	3⅛ - 3	3⅛ - 3	3⅛ - 3⅛	3⅜ - 3⅛
Dutch Guilder	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	3⅛ - 3
French Franc	3⅛ - 3⅛	3⅛ - 3⅛	3½ - 3⅜	3⅛ - 3⅛	3½ - 3½	3¾ - 3⅝
Portuguese Esc.	7⅜ - 7⅛	7⅛ - 7⅛	7⅛ - 6⅞	6⅞ - 6¾	6¾ - 6¾	6⅞ - 6⅝
Spanish Peseta	6¾ - 6⅝	6¾ - 6¾	6¾ - 6¾	6⅞ - 6¾	6¾ - 6⅝	6¾ - 6⅝
Sterling	6 - 5½	5¾ - 5¾	5⅞ - 5¾	6 - 5¾	6⅛ - 6⅛	6⅜ - 6⅜
Swiss Franc	1¾ - 1⅝	1¾ - 1⅝	1¾ - 1⅝	1¾ - 1⅝	1¾ - 1⅝	1¾ - 1¾
Can. Dollar	3¾ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅞	3¾ - 3⅝	3¾ - 3⅞	3⅞ - 3¾
US Dollar	5¼ - 5	5⅛ - 5⅛	5⅛ - 5⅛	5½ - 5⅜	5⅝ - 5⅝	5¾ - 5¾
Italian Lira	8¾ - 7⅞	8⅜ - 8¼	9⅛ - 8⅞	8⅞ - 8⅛	7¾ - 7⅞	7¾ - 7⅞
Yen	½ - ⅜	½ - ⅜	½ - ½	½ - ½	½ - ⅜	¾ - ⅝
Asian $Sing	3⅛ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛	3⅜ - 3¼	3⅜ - 3¼	3½ - 3⅜

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.27	96.34	-0.05	96.35	96.23	40,087	58,438
Mar	96.27	96.32	+0.03	96.33	96.22	17,575	44,698
Jun	96.25	96.28	+0.01	96.29	96.20	8,082	27,971

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.84	96.84	-	96.85	96.83	25503	221372
Mar	96.81	96.80	-0.02	96.84	96.79	28015	206162
Jun	96.69	96.65	-0.05	96.73	96.65	56158	185721
Sep	96.50	96.47	-0.06	96.54	96.46	49438	148950

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.20	92.30	+0.02	92.32	92.19	29239	64699
Mar	92.72	92.81	+0.03	92.82	92.69	14672	45189
Jun	93.02	93.13	+0.03	93.13	93.00	5011	31327
Sep	93.20	93.26	+0.03	93.26	93.11	1850	23870

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.16	98.22	+0.06	98.26	98.12	13175	37506
Mar	98.16	98.21	+0.07	98.24	98.10	7299	25487
Jun	98.00	98.10	+0.07	98.14	98.00	3291	12234
Sep	97.80	97.87	+0.06	97.90	97.80	1447	4431

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.41	99.41	+0.01	99.41	99.41	116	n/a
Mar	99.30	99.30	+0.01	99.30	99.30	104	n/a
Jun	99.14	99.14	+0.03	99.14	99.14	561	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.81	95.85	+0.02	95.86	95.80	1987	8300
Mar	95.79	95.83	-	95.84	95.78	1832	4741
Jun	95.79	95.80	-0.02	95.82	95.78	469	2767
Sep	95.71	95.73	-0.02	95.75	95.71	270	2444

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100.	18.60	16.41	4.855	1.969	4846	5.446	20.58	489.1	409.0	20.84	3.981	1.983	4.256	3.146	352.7	2.530
Denmark	(DKr)	53.75	10	8.819	2.610	1.058	2604	2.927	11.06	262.9	219.8	11.25	2.145	1.066	2.287	1.691	189.6	1.360
France	(FFr)	60.95	11.34	10	2.959	1.200	2953	3.319	12.54	298.1	249.3	12.76	2.432	1.208	2.593	1.918	215.0	1.542
Germany	(DM)	20.60	3.832	3.379	1	0.405	998.0	1.122	4.238	100.7	84.24	4.312	0.822	0.408	0.876	0.648	72.64	0.521
Ireland	(I£)	50.80	9.450	8.334	2.466	1	2481	2.768	10.45	248.4	207.8	10.63	2.027	1.007	2.161	1.598	179.2	1.285
Italy	(L)	2.064	0.384	0.339	0.100	0.041	100.	0.112	0.425	10.09	8.441	0.432	0.082	0.041	0.088	0.065	7.279	0.052
Netherlands	(Fl)	18.36	3.416	3.013	0.892	0.361	889.7	1	3.779	89.81	75.10	3.844	0.733	0.364	0.781	0.578	64.76	0.465
Norway	(NKr)	48.59	9.040	7.873	2.359	0.957	2355	2.646	10	237.7	198.7	10.17	1.939	0.963	2.067	1.529	171.4	1.229
Portugal	(Es)	20.45	3.804	3.355	0.993	0.403	990.7	1.113	4.208	100.	83.62	4.281	0.816	0.405	0.870	0.643	72.11	0.517
Spain	(Pta)	24.45	4.549	4.012	1.187	0.481	1185	1.332	5.032	118.6	100.	5.119	0.976	0.485	1.040	0.769	86.23	0.619
Sweden	(SKr)	47.77	8.886	7.837	2.319	0.940	2314	2.601	9.830	233.8	195.4	10	1.906	0.947	2.032	1.503	168.5	1.208
Switzerland	(SFr)	25.06	4.662	4.111	1.217	0.493	1214	1.365	5.156	122.6	102.5	5.246	1	0.497	1.066	0.788	88.38	0.634
UK	(£)	50.44	9.384	8.276	2.449	0.993	2444	2.747	10.38	246.7	206.3	10.56	2.013	1	2.146	1.587	177.9	1.276
Canada	(C$)	23.50	4.373	3.856	1.141	0.463	1139	1.280	4.837	115.0	96.13	4.921	0.938	0.466	1	0.740	82.90	0.595
US	($)	31.78	5.813	5.215	1.543	0.626	1540	1.731	6.541	155.5	130.0	6.654	1.268	0.630	1.352	1	112.1	0.804
Japan	(Y)	28.35	5.275	4.652	1.377	0.558	1374	1.544	5.835	138.7	110.0	5.936	1.132	0.562	1.208	0.892	100.	0.717
Ecu		39.53	7.354	8.486	1.919	0.778	1815	2.153	8.135	193.3	161.7	8.276	1.578	0.784	1.682	1.244	139.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6518	0.6520	-0.0003	0.6532	0.6516	18,354	70,665
Mar	0.6566	0.6566	+0.0002	0.6586	0.6563	259	2,295
Jun	-	0.6605	-	-	-	1	2,271

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8982	0.8991	+0.0009	0.9014	0.8972	12,679	72,269
Mar	0.9109	0.9111	+0.0013	0.9111	0.9109	246	1,997
Jun	-	0.9215	-	-	-	14	214

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7936	0.7944	+0.0005	0.7948	0.7923	14,752	47,220
Mar	0.8014	0.8025	+0.0012	0.8025	0.8014	607	2,392
Jun	-	0.8080	+0.0001	0.8090	-	12	603

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5830	1.5860	+0.0030	1.5876	1.5794	8,439	55,510
Mar	1.5860	1.5860	+0.0042	1.5860	1.5850	15	127
Jun	-	1.5840	+0.0098	1.5840	-	4	2

UK INTEREST RATES

LONDON MONEY RATES

Oct 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 2	5⅞ - 5¾	5⅞ - 5¾	6⅛ - 5⅞	6⅛ - 6	6⅜ - 6¼
Sterling CDs	-	-	5¾ - 5¾	5¾ - 5⅞	6⅛ - 6	6⅜ - 6¼
Treasury Bills	-	-	5¾ - 5¾	5¾ - 5⅝	-	-
Bank Bills	-	-	5¾ - 5¾	5¾ - 5¾	5¾ - 5¾	-
Local authority deps.	5¾ - 5⅝	5¾ - 5⅝	5¾ - 5¾	5¾ - 5¾	6⅛ - 5¾	6¼ - 6⅛
Discount Market deps	5¾ - 4¾	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Oct 4, 5.5136pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1996. Agreed rate for period Oct 26, 1996 to Nov 25, 1996, Schemes II & III 7.09pc. Reference rate for period Aug 31, 1996 to Sep 30, 1996, Schemes IV & V 5.849pc. Finance House Base Rate 6pc from Oct 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.94	93.93	-0.01	93.94	93.90	22504	101785
Mar	93.75	93.77	-	93.80	93.73	27146	61022
Jun	93.49	93.50	-	93.54	93.45	21656	75825
Sep	93.23	93.23	-0.01	93.28	93.17	16196	48505
Dec	93.03	93.02	-0.01	93.06	92.95	6793	36778

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
9375	0.22	0.20	0.19	0.04	0.18	0.44
9400	0.05	0.08	0.10	0.12	0.31	0.60
9425	0.01	0.03	0.05	0.33	0.51	0.80

Est. vol. total, Calls 5784 Puts 7621. Previous day's open int., Calls 126269 Puts 140810

EMS EUROPEAN CURRENCY UNIT RATES

Oct 17	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.792214	0.780026	+0.001389	-1.54	3.23	10
Finland	5.80661	5.74890	+0.00382	-0.99	2.66	7
Portugal	195.792	194.110	+0.025	-0.86	2.52	5
Spain	162.493	162.139	+0.322	-0.22	1.86	2
Netherlands	2.15214	2.15877	-0.00141	0.31	1.33	-2
Belgium	39.3960	39.6346	-0.0292	0.61	1.03	-4
Austria	13.4383	13.5358	-0.0077	0.73	0.91	-5
Germany	1.91007	1.92384	-0.00114	0.72	0.91	-7
Denmark	7.28580	7.37176	-0.00358	1.19	0.45	-8
France	6.40608	0.51096	-0.00271	1.64	0.00	-14
NON ERM MEMBERS						
Greece	292.867	301.086	-0.015	2.81	-1.14	-
Italy	2106.15	1925.71	+10.4	-8.57	11.16	-
UK	0.786652	0.787345	-0.00079	0.09	1.55	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	Calls Nov	Calls Dec	Calls Jan	Puts Nov	Puts Dec	Puts Jan
1.550	3.30	3.44	-	0.02	0.21	0.40
1.560	2.46	2.63	-	0.14	0.48	0.65
1.570	1.67	1.98	2.23	0.36	0.78	0.99
1.580	1.03	1.38	1.67	0.72	1.15	1.40
1.590	0.57	0.92	1.19	1.30	1.64	1.94

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.38	94.38	+0.03	94.39	94.35	78,909	481,874
Mar	94.26	94.31	+0.04	94.33	94.27	123,981	372,460
Jun	94.13	94.18	+0.05	94.20	94.12	68,380	275,943

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.94	94.93	-0.02	94.95	94.93	96	4,067
Mar	94.81	94.83	-0.04	94.84	94.81	61	1,790
Jun	-	94.67	-0.04	94.67	94.61	314	1,297

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9675	0.11	0.12	0.15	0.18	0.02	0.03	0.10	0.13
9700	0.01	0.02	0.04	0.08	0.17	0.18	0.24	0.28
9725	0	0	0.01	0.02	0.41	0.41	0.45	0.47

Est. vol. total, Calls 13654 Puts 2081. Previous day's open int., Calls 280767 Puts 298234

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9800	[illegible]	[illegible]	[illegible]	[illegible]
9825	[illegible]	[illegible]	[illegible]	[illegible]
9850	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls 275 Puts 0. Previous day's open int., Calls 4053 Puts 2050

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Dec	Calls Mar	Calls Jun	Puts Dec	Puts Mar	Puts Jun
9225	0.21	0.68	1.00	0.12	0.15	0.17
9250	0.10	0.50	0.83	0.19	0.22	0.25
9275	0.04	0.36	0.66	0.46	0.43	0.38

Est. vol. total, Calls 8330 Puts 5165. Previous day's open int., Calls 98452 Puts 54191

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Irish Bank (GB)	5.75	Duncan Lawrie	5.75	•Rea Brothers	5.75
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Group	5.75	Financial & Gen Bank	7.00	•Singer & Friedlander	5.75
•Henry Ansbacher	5.75	•Robert Fleming & Co	5.75	•Smith & Williamson Secs	5.75
Bank of Baroda	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Banco Bilbao Vizcaya	5.75	•Guinness Mahon	5.75	TSB	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of Ireland	5.75	•Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Bank of Scotland	5.75	•Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
•Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	•Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	*Mount Credit Corp	6.00		
Credit Lyonnais	5.75				

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* In administration

COMMODITIES AND AGRICULTURE

Bumper US harvest lifts freight rates

By Deborah Hargreaves

Shipping rates for commodities moved sharply higher yesterday, pushing the Baltic freight index up 23 points to 1,118 after a 19 point rise on Wednesday.

The index is moving from its lowest point for two years, hit on September 25, and although shippers believe rates could move higher in the short term, a flood of new ships is likely to keep them low next year.

Mr Basil Mavroleon at Bray Shipping, who is chairman of the index committee, said: "The freight market is moving up very fast at the moment, but it's coming from a very low level. Two weeks ago we were looking at laying off ships. The market was diabolical."

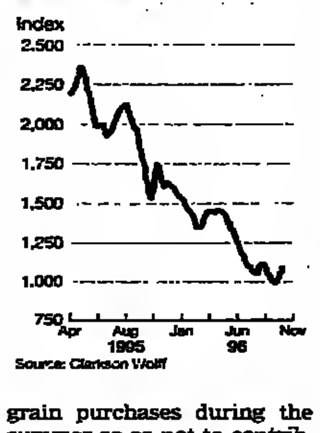
The current increase in freight rates reflects a rush of US grain to the market following this year's bumper harvest. The supply of carriers in the Pacific is tight as shipping in the Asian market has picked up and this has fed through to rising rates in the Atlantic.

The Baltic freight index is calculated by using rates on 10 international routes for dry bulk shipping of commodities such as grain, iron ore and coal. Higher current rates mean, for example, it would cost a shipper $21.50 a tonne to send grain from the US Gulf to Japan – one of the most popular routes.

A booming freight market in 1995, which saw the index hit its peak in May, has encouraged a lot of new shipbuilding. Most of those carriers will be delivered over the next 15 months, which is likely to depress rates for much of next year.

Some brokers believe China delayed important grain purchases during the summer so as not to contribute to soaring wheat prices. A large purchasing programme by Beijing for the final quarter could support freight rates.

Baltic freight



Source: Clarkson Wolff

The Baltic index trades as a futures contract on the London International Financial Futures Exchange. The over-the-counter market for forward freight agreements, which give shippers the chance to hedge individual routes, has also expanded in the past year – with three brokers selling the products.

Mr Philippe van den Abeele, freight derivatives manager at Clarkson Wolff, the shipping brokers, said Clarkson's forward freight agreements represent some $30m of freight per month.

"Many shippers are much more interested in hedging than they were: products like these could change the way the shipping market thinks," he said. He has just begun offering freight agreements for the tanker market, which ships crude oil.

Shippers are looking to develop a new index to cover so-called Handysize ships, which are more flexible than larger carriers.

SouthernEra put on diamond map

Chris Jennings is an unusual character in the hothouse world of Canadian mining exploration. With grandfatherly charm and a high reputation as a geologist, Mr Jennings doesn't fit the mould of a speculative penny-stock promoter. Like the promoters however, he is eager to persuade lenders, investors and others that Toronto-based SouthernEra Resources is on the verge of becoming a force in the international diamond market.

Mr Jennings, aged 63, is SouthernEra president and owns 10 per cent of the shares. Since he took the reins four years ago, it has acquired stakes in an array of properties in 10 countries, including South Africa, Canada, Venezuela, Angola, Swaziland, Uruguay and Ukraine. According to Mr Jennings, "it's a high-risk business, and we've got to spread our risks".

But SouthernEra's hopes are pinned chiefly on its wholly-owned Klipspringer property in South Africa's Northern Province. A feasibility study is due to be completed in early 1997.

"I'm sure we've got a viable mine there," Mr Jennings says. More than 3,000 carats, mostly of gem quality, have been recovered. They average 0.31 carats and include 15 gemstones of over four carats.

According to Mr Jennings, the 62km-long kimberlite fissure in which the stones have been found is about six times longer than any other in South Africa.

The capital cost of an underground mine is estimated at a relatively modest $30m. Production costs, estimated at $25 a tonne, could be held down for up to 20 years by tunnelling horizontally into the side of a mountain.

SouthernEra gained access to needed cash flow last month by teaming up with a small company with sizeable concessions in Angola's rich alluvial diamond fields. Sphere Trading, is run by two former South African policemen who found 800 carats of diamonds worth nearly $1m in one day.

Since then, Sphere has extracted 45,000 carats of diamonds, valued at an average $920 a carat, from 156,000 hectares of concessions in Lunda Norte province.

Chris Jennings: pinning his hopes on Klipspringer property

Mr Jennings, who has visited Angola four times in as many months, says his partners are among the few diamond hunters not deported in recent weeks.

Angola "is going to be one of the world's leading diamond centres, if peace can hold. The government is very serious," he says.

South African born Mr Jennings worked for many years for Falconbridge, the Canadian metals producer. According to Mr Bill James, Falconbridge former chief executive, he is not a "fly-by-night" promoter.

His reputation has caught the eye of some of the biggest producers. RTZ-CRA, the Anglo-Australian group, is SouthernEra's biggest shareholder, with 18.25 per cent. Swiss and French banks own 12 to 13 per cent.

RTZ is said to have bought its stake partly to return Mr Jennings' favour in introducing it to Aber Resources, a small Canadian exploration group. Aber's property in the Lac de Gras area of the Northwest Territories is on course to become Canada's second diamond mine.

Kennecott Canada, an RTZ subsidiary, has a 60 per cent stake in the Aber property. Mr Jennings, who worked for Aber prior to joining SouthernEra, retains a 1 per cent royalty interest.

The prospect of a mine on the Klipspringer property has lifted SouthernEra's shares, listed in Toronto, from C$2.27 in January to about C$9 this week. Mr John Hainey, analyst at Eagle and Partners in Toronto, predicts the price will rise to at least C$12 if the project goes ahead.

He notes that SouthernEra remains a risky investment. "But it's lower risk than some of the other grassroots stuff out there," he adds.

Bernard Simon

Report warns on cuts in EU tariffs

By Maggie Urry

Cuts in tariffs over the next 12 years will put the European Union's dairy policy "under considerable strain" according to a report by Mr Sion Roberts, a National Farmers' Union economist.

The report concludes: "Increased imports into the EU from the world market could seriously pressure milk prices within the EU."

Tariff reductions were agreed as part of the Uruguay Round of Gatt, the predecessor body to the World Trade Organisation, and further falls in tariffs are likely under the next round, depending on negotiations due to begin in 1999.

Mr Roberts outlined three options for EU milk policy. Without compensation, each would result in falls of up to 30 per cent in farmers' gross margins over 12 years.

The first would be to maintain the current regime for as long as possible. Mr Roberts says this is the option most farmers prefer.

A second option would be to cut support prices to meet world prices either gradually, accompanied by quota increases, or in one go.

But Mr Roberts argues that gradual price falls would be unlikely to meet the EU's Gatt commitments. A one-off reduction would probably result in a price fall of 25 to 30 per cent. This was the only long-term solution, he said.

The third option would be a system of B-quotas where surplus production could be exported without subsidies, enabling the dairy industry to maintain its current size. However, Mr Roberts says, these exports would depress world prices, with a consequent effect on A-quota milk, and might not be compatible with Gatt.

Aluminium rises on Lebed dismissal

MARKETS REPORT

By Deborah Hargreaves and Robert Corzine

Aluminium prices rose by $14 yesterday to $1,355 a tonne on news that Mr Boris Yeltsin, the Russian president, had dismissed Mr Alexander Lebed, his chief of security.

Analysts said the market went into a spate of panic buying by those with short positions, on fears that the disarray in the Russian government could affect aluminium exports. Russia is a leader in the aluminium supply market and exports are expected to reach record levels this year.

Chinese exchange considers agricultural options

The Zhengzhou Commodity Exchange in China said yesterday it was considering launching option contracts for agricultural commodities, Reuter reports from Osaka.

"The exchange has been considering listing options, and the discussions have been fruitful so far," said Mr Wang Xian Li, the exchange's vice-president. "But the Chinese government is very cautious on this, and we would like to think it over thoroughly."

Mr Wang is visiting Osaka to exchange views and study derivatives trading with the Kansai Agricultural Commodities Exchange.

The Zhengzhou exchange currently trades agricultural commodities such as wheat, corn and soyameal.

Trading volumes for the nine months to September totalled 32.74m lots, compared with 36.60m for all of 1995.

Crude oil prices also firmed on news of Mr Lebed's sacking. The price of the benchmark Brent blend for December delivery was quoted at $24.15 a barrel in late London trading, up 21 cents on Wednesday's close.

The firmer Brent price helped bolster gas oil prices, which began to slide on Wednesday after registering sharp gains earlier in the week as a result of high demand, especially in Germany. Gas oil futures on London's International Petroleum Exchange closed 25 cents up at $222.75 a tonne.

The sharp increases in crude oil prices over the past few weeks have helped to lift the Opec basket price to levels well above the group's reference price of $21 a barrel. The basket, an average of seven international crude oils, reached $23.61 on Wednesday.

Copper prices fluctuated wildly as the market opened stronger on reports of a strike at Kennecott's Utah copper mine in the US. But by mid-afternoon, prices on the London Metal Exchange had slipped from $1,930 a tonne at the open to $1,902, before closing near the top of its daily range at $1,927.

Traders expect today's release of LME stock figures to show another large drawdown, which could lead to a jump in prices. But the overall trend remains gloomy.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1329-30	1361-62
Previous	1310-11	1342.5-43.5
High/low	1318	1369/1343
AM Official	1317.5-18	1348.5-49
Kerb close		1368-69
Open int.	214,833	
Total daily turnover	47,183	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1220-25	1237-40
Previous	1210-15	1230-35
High/low		1240/1233
AM Official	1215-20	1234-35
Kerb close		1240-45
Open int.	5,552	
Total daily turnover	832	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	725-6	735-6
Previous	730-2	738-40
High/low	731/730.5	743/735
AM Official	730.5-1	739-9.5
Kerb close		733-4
Open int.	39,076	
Total daily turnover	8,548	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6975-85	7090-95
Previous	6945-55	7060-65
High/low		7100/7050
AM Official	6975-80	7088-90
Kerb close		7080-85
Open int.	43,678	
Total daily turnover	8,698	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5900-10	5960-70
Previous	5905-15	5965-75
High/low		5970/5955
AM Official	5895-905	5956-57
Kerb close		5955-60
Open int.	15,646	
Total daily turnover	2,839	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	994-5	1019-20
Previous	994-9	1020-20.5
High/low	991	1022/1018
AM Official	990.5-1	1018-18.5
Kerb close		1018-18
Open int.	70,278	
Total daily turnover	12,001	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1932-34	1916-17
Previous	1926-28	1916-17
High/low	1945/1931	1930/1902
AM Official	1928-29	1814-15
Kerb close		1923-24
Open int.	172,179	
Total daily turnover	74,579	

■ LME AM Official £/$ rate: 1.5875
LME Closing £/$ rate: 1.5865

Spot: 1.5871 3 mths: 1.5855 6 mths: 1.5838 9 mths: 1.5821

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	93.00	+2.90	93.40	90.90	504	3,380
Nov	91.70	+2.65	91.90	89.90	73	2,138
Dec	90.90	+2.25	91.30	88.20	10,432	25,269
Jan	90.30	+2.15	–	–	203	1,389
Feb	89.70	+1.85	89.30	89.30	6	900
Mar	89.00	+1.85	89.30	87.10	1,657	10,103
Total					13,484	59,423

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	380.20-380.50		
Opening	380.70-381.00		
Morning fix	380.55	239.64	482.80
Afternoon fix	380.60	239.65	482.03
Day's High	380.70-381.00		
Day's Low	380.10-380.40		
Previous close	381.50-381.80		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.80	6 months	3.57
2 months	3.75	12 months	3.66
3 months	3.56		

Silver Fix	p/troy oz.	US cts equiv.
Spot	313.25	497.50
3 months	317.55	503.85
6 months	321.65	510.10
1 year	330.75	522.95

Gold Coins	$ price	£ equiv.
Krugerrand	381-384	240-242
Maple Leaf	385.60-388.05	
New Sovereign	89-92	56-58

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	380.6	-0.2	380.0	379.9	8	16
Dec	382.6	-0.4	383.2	382.1	18,634	109k
Feb	384.8	-0.4	385.1	384.3	115	16,171
Apr	387.0	-0.5	387.2	386.7	110	10,642
Jun	389.4	-0.5	–	–	782	10,995
Aug	391.9	-0.5	–	–	274	4,199
Total					20,851	195,214

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	388.4	-0.1	–	–	3	14
Jan	388.1	-0.1	388.7	387.5	1,940	18,531
Apr	390.7	-0.1	391.5	390.5	44	7,444
Jul	393.7	-0.1	393.0	393.0	3	920
Oct	397.2	-0.1	–	–	–	27
Total					1,984	27,936

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	116.50	-1.20	117.25	116.10	273	7,711
Mar	117.50	-1.20	118.00	118.00	2	161
Jun	118.55	-1.20	–	–	–	115
Total					276	8,077

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	486.9	-11.5	–	–	13	14
Dec	490.2	-11.8	502.5	488.0	13,663	63,677
Jan	492.2	-11.9	–	–	5	26
Mar	497.1	-12.0	506.5	495.5	1,245	11,103
May	501.7	-12.1	510.0	499.0	51	6,538
Jul	506.3	-12.2	515.0	506.0	5	4,995
Total					14,981	93,546

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	25.20	+0.03	25.54	24.90	32,745	42,188
Dec	24.87	+0.09	25.15	24.51	38,301	94,879
Jan	24.40	+0.08	24.65	24.30	11,580	53,114
Feb	23.88	+0.16	24.01	23.73	4,034	35,044
Mar	23.25	+0.11	23.33	23.08	1,453	20,818
Apr	22.63	–	22.63	22.63	898	14,284
Total					95,428	428,013

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	24.17	+0.23	24.35	23.72	10,981	74,490
Jan	23.52	+0.26	23.66	23.10	4,975	32,363
Feb	22.82	+0.27	22.85	22.40	2,417	20,202
Mar	22.11	+0.28	22.13	21.72	1,546	28,143
Apr	21.38	+0.22	21.45	21.09	2,006	6,736
May	20.90	+0.28	20.90	20.55	450	3,818
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	71.55	-0.01	72.40	70.95	21,171	35,071
Dec	71.20	–	72.10	70.70	18,643	37,716
Jan	70.50	+0.10	71.20	70.10	9,902	26,806
Feb	68.80	+0.25	69.30	68.25	4,825	12,855
Mar	66.15	+0.80	65.25	65.40	708	8,724
Apr	62.30	+0.30	62.30	62.30	236	4,203
Total					56,120	142,979

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	227.75	+0.25	230.75	222.00	8,606	27,920
Dec	223.00	+0.50	224.25	219.50	5,717	21,696
Jan	217.00	+1.00	218.50	213.25	2,471	17,473
Feb	208.50	+1.00	209.75	205.75	957	5,276
Mar	199.50	+1.25	199.50	197.25	139	5,050
Apr	190.75	+1.50	188.00	187.75	30	4,407
Total					20,119	92,608

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.465	+0.028	2.508	2.385	23,221	28,343
Dec	2.640	+0.020	2.675	2.580	7,729	32,482
Jan	2.665	+0.025	2.680	2.600	3,703	20,044
Feb	2.535	+0.030	2.545	2.480	1,708	12,199
Mar	2.340	+0.030	2.345	2.300	782	8,236
Apr	2.135	+0.022	2.140	2.100	507	5,100
Total					38,537	151,302

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	66.15	+0.70	66.80	65.10	13,124	22,065
Dec	65.45	+0.70	65.95	64.55	4,828	18,582
Jan	64.70	+0.76	65.00	63.83	1,825	10,555
Feb	64.85	+1.06	64.70	64.10	182	3,789
Mar	64.90	+0.61	64.90	64.90	132	1,892
Apr	66.70	+0.61	66.70	66.36	8	2,615
Total					20,349	91,698

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	97.65	-0.85	98.50	97.55	106	1,058
Jan	99.60	-0.90	100.50	99.50	209	2,042
Mar	100.75	-1.00	101.15	100.80	80	1,609
May	102.60	-1.05	103.65	102.40	71	1,186
Jul	104.00	-1.00	104.10	104.00	21	167
Nov	98.00	-0.50	98.00	98.00	1	64
Total					488	6,126

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	411.00	-6.25	417.50	409.00	11,110	40,877
Mar	400.50	-5.00	405.50	399.50	2,696	15,118
May	381.50	-5.50	386.50	381.00	512	1,700
Jul	365.75	-3.75	369.00	364.00	868	8,801
Sep	368.00	-5.00	370.50	368.00	3	217
Dec	376.00	-5.00	378.00	376.00	2	167
Total					15,190	66,935

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	283.25	–	283.75	280.75	31,943	156,944
Mar	289.25	-0.75	290.50	287.50	9,365	79,023
May	295.00	-1.25	296.75	293.50	3,165	35,813
Jul	297.50	-1.75	299.50	296.00	3,073	29,387
Sep	285.00	-2.25	297.00	284.00	136	3,125
Dec	283.50	-0.50	284.00	281.00	2,259	20,563
Total					49,957	325,624

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	95.50	-1.50	96.50	96.15	124	694
Jan	97.25	-1.50	96.50	98.00	120	747
Mar	98.75	-1.25	99.50	98.75	8	187
May	100.25	-1.00	–	–	–	115
Sep	94.00	-0.50	–	–	–	1
Total					253	1,754

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	688.50	-2.50	690.75	684.00	36,444	79,799
Jan	693.50	-3.25	696.25	689.00	11,147	39,524
Mar	700.50	-3.75	703.00	688.50	5,694	26,727
May	703.25	-3.00	705.25	700.00	2,726	15,202
Jul	705.75	-3.25	708.00	701.50	3,347	13,854
Aug	702.50	-3.50	705.50	700.50	227	1,135
Total					60,187	183,469

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	22.90	+0.27	22.90	22.45	348	587
Dec	23.26	+0.35	23.28	22.75	8,004	48,991
Jan	23.51	+0.32	23.52	23.02	2,345	16,601
Mar	23.85	+0.32	23.85	23.42	1,127	16,964
May	24.15	+0.30	24.15	23.75	679	9,342
Jul	24.45	+0.27	24.45	24.07	171	3,306
Total					12,805	98,950

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	236.8	+0.5	238.0	235.5	1,440	2,648
Dec	227.4	-2.7	230.0	226.1	8,847	43,371
Jan	224.0	-3.0	226.6	222.8	2,244	9,805
Mar	221.5	-2.9	224.0	220.3	1,398	15,490
May	218.3	-2.8	222.0	218.5	1,025	8,540
Jul	219.3	-2.8	221.0	218.0	440	4,020
Total					15,492	86,203

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	32.5	–	–	–	–	2
Mar	66.0	-4.8	–	–	–	–
Apr	66.0	-4.8	70.0	66.0	123	1,352
May	77.0	-4.0	–	–	–	17
Jun	87.0	-4.0	–	–	–	–
Total					123	1,371

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1200	+35	1204	1170	144	1,039
Nov	1305	+35	1310	1282	110	707
Dec	1298	+38	1310	1278	123	147
Jan	1300	+25	1315	1280	118	1,697
Apr	1310	+24	1325	1320	57	548
Jul	1129	+13	1125	1125	10	139
Total					587	4,352

	Close	Prev
BFI	1118	1095

FUTURES DATA
All futures data supplied by CMS.

Wool

Falling wool prices at auctions earlier in October showed clear signs of stabilising last week and this week brought further improvements. The Australian Eastern Market Indicator edged 12 higher to 564cts/kg. The New Zealand Market indicator also moved higher to 470cts/kg up 11cts on the week. Sharper rises in South Africa were influenced by persistent currency weakness. British Wool sold at Bradford this week attracted more interest than the preceding Scottish auction and 80% was sold to the trade. Demand from Western Europe has been fair with Italy buying superfine merinos at Australia's Gouldburn sale. Price resistance in Western Europe developed quickly after signs of greater firmness following last weeks seasonal low point.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	971	-1	976	967	1,159	28,143
Mar	1000	–	1003	996	1,193	40,699
May	1014	–	1016	1010	415	17,842
Jul	1028	–	1030	1025	176	11,860
Sep	1040	–	1042	1039	110	3,881
Dec	1051	–	1051	1046	127	4,068
Total					3,242	130,913

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1412	+10	1418	1397	4,068	27,184
Mar	1440	+8	1442	1427	1,795	21,096
May	1455	+10	1458	1442	506	8,941
Jul	1470	+10	1470	1458	98	6,445
Sep	1480	+6	1480	1480	26	5,707
Dec	1499	+6	–	–	114	797
Total					7,002	78,129

■ COCOA (ICCO) (SDR's/tonne)

Oct 18	Price	Prev. day
Daily	1042.99	1032.98

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	1521	+5	1521	1505	926	10,491
Jan	1424	-10	1435	1416	1,120	11,419
Mar	1387	-16	1402	1380	565	0,573
May	1368	-16	1384	1365	196	2,604
Jul	1387	-15	1384	1361	53	293
Sep	1367	-15	1381	1375	28	57
Total					2,909	31,452

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	103.90	-2.30	112.10	103.50	8,805	14,273
Mar	102.50	-1.05	103.40	102.10	2,425	7,871
May	101.80	-1.30	102.60	101.70	411	2,705
Jul	101.50	-1.50	102.25	101.50	112	795
Sep	101.25	-1.50	102.40	102.40	1	284
Dec	102.00	-1.00	102.50	102.50	10	317
Total					9,783	26,315

■ COFFEE (ICO) (US cents/pound)

Oct 16	Price	Prev. day
Comp. daily	96.35	99.69
15 day average	87.31	97.14

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	318.2	–	318.0	316.5	700	8,736
Mar	315.4	+0.2	316.1	314.0	565	11,783
May	316.4	+0.7	317.0	315.0	83	3,725
Aug	316.4	+0.2	318.8	317.5	38	1,696
Oct	310.9	–	310.9	310.1	7	1,003
Dec	313.7	-0.5	313.1	313.1	5	269
Total					1,417	27,516

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.71	+0.07	10.78	10.69	7,955	82,358
May	10.76	+0.05	10.77	10.70	2,293	28,087
Jul	10.64	+0.04	10.65	10.60	620	17,899
Oct	10.62	+0.03	10.62	10.57	441	10,800
Mar	10.55	+0.01	10.53	10.53	38	3,199
May	10.52	+0.01	–	–	4	460
Total					11,351	143,246

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	72.79	-0.34	73.10	72.65	6,266	25,848
Mar	74.04	-0.36	74.30	73.95	1,425	11,234
May	75.02	-0.33	75.25	74.85	791	7,285
Jul	75.93	-0.12	76.00	75.80	196	5,502
Oct	75.35	-0.05	76.40	75.35	84	1,218
Dec	75.90	-0.10	76.10	75.90	125	4,190
Total					8,887	55,731

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	112.15	+0.35	112.80	110.50	978	5,913
Jan	102.35	-1.60	103.50	102.20	898	6,503
Mar	104.50	-1.20	105.05	104.10	151	3,082
May	105.85	-1.45	106.50	106.00	13	692
Jul	107.85	-1.15	–	–	–	520
Sep	109.50	-1.20	–	–	–	239
Total					2,040	17,045

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 17	Oct 16	month ago	year ago
1980.2	1871.0	1901.5	2097.4

■ CRB Futures (Base: 1967=100)

Oct 16	Oct 15	month ago	year ago
244.41	246.24	-	-

■ GSCI Spot (Base: 1970=100)

Oct 16	Oct 15	month ago	year ago
209.48	211.65	200.32	180.85

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	71.400	+0.475	71.650	70.725	2,093	8,353
Dec	65.400	+0.125	65.675	65.150	5,816	38,747
Feb	63.350	+0.075	63.450	63.150	2,197	18,379
Apr	65.275	+0.050	65.450	65.125	1,232	10,396
Jun	63.175	+0.100	63.425	63.050	267	4,900
Aug	62.775	-0.025	63.075	62.775	389	6,374
Total					12,240	88,628

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	55.925	+0.650	56.300	55.050	1,176	1,855
Dec	54.700	+0.500	55.125	53.950	6,531	15,890
Feb	75.150	+0.125	75.500	74.650	1,018	7,648
Apr	71.150	+0.050	71.425	70.625	404	3,048
Jun	75.725	-0.100	75.950	75.450	245	3,069
Jul	73.600	+0.200	73.600	73.200	61	795
Total					8,506	33,231

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	70.300	-0.125	71.750	68.800	1,621	5,110
Mar	70.000	-0.275	71.700	68.800	159	630
May	71.925	-0.400	72.300	70.400	23	300
Jul	72.200	-0.275	72.250	71.400	15	136
Aug	70.950	-0.450	–	70.950	3	31
Total					1,821	6,207

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1300	58	105	11	24
1400	28	74	30	44
1500	11	50	63	70
■ COPPER (Grade A) LME	**Nov**	**Feb**	**Nov**	**Feb**
1900	71	111	27	87
1950	44	89	48	124
2000	26	73	80	154
■ COFFEE LIFFE	**Nov**	**Jan**	**Nov**	**Jan**
1450	57	56	63	118
1500	40	41	118	155
1550	27	31	153	194
■ COCOA LIFFE	**Dec**	**Mar**	**Dec**	**Mar**
950	38	73	17	23
975	24	58	28	33
1000	15	45	44	45
■ BRENT CRUDE IPE	**Dec**	**Jan**	**Dec**	**Jan**
2400	66	87	-	-
2450	54	71	-	-
2500	38	62	-	-

LONDON SPOT MARKETS

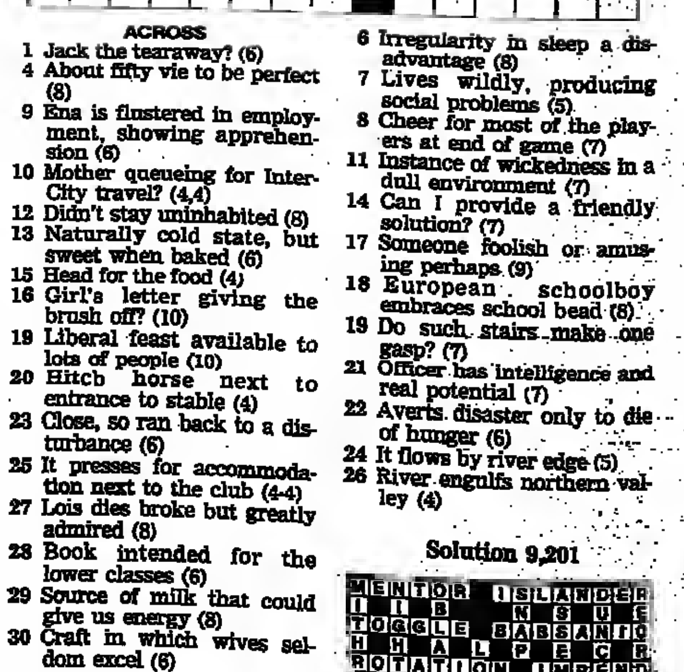
■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$21.39-1.55x	+0.18
Brent Blend (dated)	$24.50-4.55	
Brent Blend (Dec)	$24.00-4.02	+0.10
W.T.I.	$24.72-4.75x	+0.145
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$242-244	
Gas Oil	$229-231	+0.5
Heavy Fuel Oil	$123-125	
Naphtha	$228-230	-1
Jet fuel	$258-259	+1
Diesel	$253-255	-2.5
■ NATURAL GAS (Pence/therm)		
Bacton (Dec)	13.25-3.35	+0.05
Petroleum Argus. Tel. London (0171) 359 8792		
■ OTHER		
Gold (per troy oz)‡	$380.35	-1.30
Silver (per troy oz)‡	492.50c	-13.00
Platinum (per troy oz.)	$384.00	-0.50
Palladium (per troy oz.)	$115.75	-0.50
Copper	96.0c	-1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.63r	-0.03
Tin (New York)	276.00	
Cattle (live weight)	96.57p	+1.77*
Sheep (live weight)	115.87p	+3.84*
Pigs (live weight)†	96.39p	-3.01*
Lon. day sugar (raw)	$266.20	-4.00
Lon. day sugar (wte)	$325.00	-3.30
Barley (Eng. feed)	103.50	
Maize (US No3 Yellow)	126.50	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	82.75p	
Rubber (Dec)♥	82.75p	
Rubber (KL RSS No1)	310.5z	+0.5
Coconut Oil (Phil)§	$732.5v	
Palm Oil (Malay.)§	525.0z	-12.5
Copra (Phil)§	$477.0v	
Soyabeans (US)	204.0	
Cotton Outlook'A' index	74.95	
Wooltops (64s Super)	415p	+10.0

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Dec v Oct/Nov z Nov ♥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 1,465 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,202 Set by DANTE



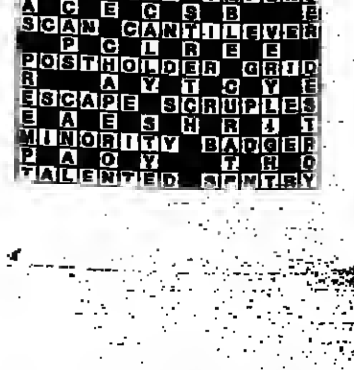
ACROSS

1 Jack the tearaway? (6)
4 About fifty vie to be perfect (8)
9 Ena is flustered in employment, showing apprehension (6)
10 Mother queueing for Inter-City travel? (4,4)
12 Didn't stay uninhabited (8)
13 Naturally cold state, but sweet when baked (6)
15 Head for the food (4)
16 Girl's letter giving the brush off? (10)
19 Liberal feast available to lots of people (10)
20 Hitch horse next to entrance to stable (4)
23 Close, so ran back to a disturbance (6)
25 It presses for accommodation next to the club (4-4)
27 Lois dies broke but greatly admired (8)
28 Book intended for the lower classes (6)
29 Source of milk that could give us energy (8)
30 Craft in which wives seldom excel (6)

DOWN

1 Gather that the boxer is slightly in the lead? (5,2)
2 Urge boss to obtain security device (5,4)
3 Follow Rex in to make certain (6)
5 Approve of American fashion (4)
6 Irregularity in sleep a disadvantage (8)
7 Lives wildly, producing social problems (5)
8 Cheer for most of the players at end of game (7)
11 Instance of wickedness in a dull environment (7)
14 Can I provide a friendly solution? (7)
17 Someone foolish or amusing perhaps (9)
18 European schoolboy embraces school head (8)
19 Do such stairs make one gasp? (7)
21 Officer has intelligence and real potential (7)
22 Averts disaster only to die of hunger (6)
24 It flows by river edge (5)
26 River engulfs northern valley (4)

Solution 9,201



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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Report warns on cuts in EU tariffs

By Maggie Urry

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

Abtrust Fund Mngrs Luxembourg SA (u)

Aetos Master Fund (u)

American Phoenix Investment Portfolios (u)

BAS Asset Management Ltd

Bank Von Ernst & Cie AG

Banque Indosuez

Barclays Diversified Portfolio (c)

Barclays Int Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

Chase Manhattan Vista Funds

Compact SA

Commercial Union Luxembourg SA (c)

DB Investment Management SA

Danske Fund (u)

Den norske Bank

Dolphin Intl Investments (u) SICAV

Dresdnerbank Asset Mngmt SA (u)

E.T. Investment Fund (u)

Eigleton Global SICAV (u)

Fidelity Funds (u)

Fidelity Funds - Contd.

Fleming Group (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Frontrunner I (u)

Gartmore Luxembourg SA (u)

HSBC Investment Funds Luxembourg SA (u)

Henderson Management SA (u)

INVESCO International Limited (u)

Jupiter Tyndall Global Fund

LGT Asset Management Plc

Liberty Newport World Portfolio (u)

Lloyds Bank Luxembourg

Manulife Regent Global Fund (u) (x)

Mercury Asset Management S.A.

Mercury Asset Management S.A. - Contd.

Midland Intl Circuit Fund SICAV(u)

Nikko Global Umbrella Fund

Nomura Global Fund (u)

PRICOA Worldwide Inv Portfolio Sicav (u)

Rothschild Asset Management

S-E-Banken Luxembourg SA

Scudder International Selection Fd (u)

Schroder International Selection Fd (u)

Skandia Selection Fund SICAV (u)

Scottish Equitable Intl Fund SICAV (u)

Sun Life Global Portfolio

Templeton Global Strategy Funds

Thornton Investment Management Ltd

Threadneedle - Threadneedle Global Assets (u)

LUXEMBOURG (REGULATED)(**)

Aetna International Umbrella Fund (u)

Aetna International Umbrella Fund - Contd.

Alliance Capital

Amerindo Fund SICAV

Anova Bank (Switzerland) Ltd

Asian Development Equity Fund

Atlantas Sicav

BNP

Banque Ferrier Lullin (Lux) SA

Banque Indosuez Luxembourg

Banque Scandinave En Suisse

Barclays Liquidity Portfolio

Bill - Keystone Asia Premier Fund

Bill Taiwan Premier Fund

Blakeney Management Ltd

CB Fund International (u)

CSFB Umbrella

Capel-Cure Myers Intl Fd Sicav (u)

Carlson Investment Management

Citicorp Investment Mgmt (Luxembourg) SA

Citiportfolio SA

Clark Capital Management Group Inc

Clemente Korea Emerging Growth Fund

Cox & Kings Overseas Fund

Credis Investment Funds

Credis Investment Funds - Contd.

Credit Commercial de France

Daiwa Japan Gem Fund

Daiwa Japan Small Equity Fd (x)

Dicuss Worldwide Investment Fund

The Dragon Fund Sicav

Egypt Trust

Emerging Markets Brewery Fund SICAV

Europa Value Fund (x)

The European Asset Value Fund

EuroPlus (u)

FMB Mir SICAV

Fidelity Intl Inv Mngt (Luxembourg) SA

Fidelity Investment (CI) Ltd

The First Korea Smaller Companies Fund

Fischer Francis Trees & Watts

Fleming Group

Fondinvest Mgmt Company SA (Umbrella Fund)

Foreign & Colonial Emerging Markets Ltd

Framlington Russian Investment Fund

Global Funds Management S.A. (u)

Global Futures & Options SICAV

Goldman Sachs

HSBC MAPT Luxembourg SA

HTR India Fund - SICAV

HYPO Capital Mngmt Invest Luxembourg SA

Henderson Independent Fund

International Bond Trust

INVESCO International Limited

InvesGest Investment Fund SICAV

Investissements Atlantiques SA

Kleinwort European Bd Fd Management SA

Korea Golden Gate Fund

Lloyds Bank Luxembourg SA

Lombard Odier Invest (c)

MC Securities Limited London

MFS International Funds

MassMutual Umbrella Fund

Mercury Asset Management SA

Merrill Lynch Asset Management

Merrill Lynch Asset Management - Contd.

Monterey Trust SICAV

Morgan Stanley Sicav

NCAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) SA

Nikko Capital Management

Nomura Asia Selection Fd SICAV

Pacific Basin Growth Fund

Pan-Holding SA

Pictet Group

RBS Global Funds

River & Mercantile Latin American SICAV

Rosenberg Global Mngt Co SA (u)

Rosenberg Management SA (u)

Rosenberg US Japan Mngmt Co SA (u)

Rothschild (Group Edmond de)

SCITECH SA

Schroder, Sheenan & Clark

Sigma Fund SICAV

Societe Generale Emerging Europe Asset Mgt

Societe Generale Group

Southern International SICAV

State Street Luxembourg SA

Storebrand Scudder Environmental Value Fd

Swede Securities

Swiss Bank Corporation

TCW Luxembourg Funds

Target International Ltd

Templeton Emerging Asia

Templeton Russian & East European Debt Fd

Tower Fund

UBS International Sicav

UBS Stewart Global Growth Fund

Van Kampen American Capital Navigator Funds

"WINTERTHUR" Fund Mngmt Co (Lux) SA

World Trust Fund

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Abbey International

Abtrust International Ltd

Albany International Assurance Ltd

Allied Dunbar International Assce Ltd

CMI Insurance Co Ltd

CMI Ins Co Ltd/Clerical Med Gen Life

CMI Ins Co Ltd/Clerical Med Gen Life - Contd.

Eagle Star Intl Life

Equitable Life (International)

Equity Fund Managers

Eurolife Assurance Group

Finance International Ltd

Friends Provident International

Guinness Europe Limited

Irish Life International Ltd

Isle of Man Assurance Ltd

Lombard International Group

Midland Life International Ltd

Old Mutual International (Guernsey) Ltd

Old Mutual International Hong Kong

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq		478	-4½	[illegible]	410	4,999	6.2	18.1
[illegible]		[illegible]	[illegible]	[illegible]	477	273.2	3.2	17.3
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	41.2	6.3	[illegible]
[illegible]		755		775	600	87.9	2.0	10.3
Guinness		457½	+4½	[illegible]	411	10,201	3.9	20.6
[illegible]		338½	+1	378	435	[illegible]	4.3	14.3
[illegible] Cnv Bds		106		101½	315	440.8	3.2	15.6
[illegible]		671½	[illegible]	[illegible]	98½	–	–	–
Matthew Clark		287½	-11½	[illegible]	622½	7,068	0.8	28.5
[illegible]		113		147	277½	254.4	10.4	13.7
Seagram S		£22½	[illegible]	£25½	93	12.3	5.0	10.3
					£20½	6,139	1.2	–

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.
[illegible]

OTHER INVESTMENT TRUSTS
[illegible]

INVESTMENT COMPANIES
[illegible]

LEISURE & HOTELS
[illegible]

LEISURE & HOTELS - Cont.
[illegible]

LIFE ASSURANCE
[illegible]

MEDIA
[illegible]

OIL EXPLORATION & PRODUCTION
[illegible]

OIL, INTEGRATED
[illegible]

OTHER FINANCIAL
[illegible]

PAPER, PACKAGING & PRINTING
[illegible]

PAPER, PACKAGING & PRINTING - Cont.
[illegible]

PHARMACEUTICALS
[illegible]

PROPERTY
[illegible]

PROPERTY - Cont.
[illegible]

RETAILERS, FOOD
[illegible]

RETAILERS, GENERAL
[illegible]

SUPPORT SERVICES
[illegible]

SUPPORT SERVICES - Cont.
[illegible]

TELECOMMUNICATIONS
[illegible]

TELECOMMUNICATIONS - Cont.
[illegible]

TEXTILES & APPAREL
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TOBACCO
[illegible]

TRANSPORT
[illegible]

WATER
[illegible]

AIM
[illegible]

AIM - Cont.
[illegible]

AMERICANS
[illegible]

CANADIANS
[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	q	£21½xd	...	£34¼	£21½	1,736	3.5	♦
Barlow	♣†	687	-1	£10½	£5½	1,231	2.1	-
Gold Flds Prop R		134	-¼	170	120	13.7	6.2	10.7
NK Props		84	...	86	60	2.57	13.8	-
SASOL	♥	648	...	719	475	3,777	1.7	-
SA Brews		£17¼	-½	£26¼	£16¼	5,012	2.0	♦
Standard Bank		£25¼	-¼	£32½	£25½	3,028	1.4	22.9
Tiger Oats	†	790	...	1270	770	1,188	2.0	16.7
Tongaat-Hulett		776xd	-12½	1247	736	794.7	2.3	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ¥ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue
h Assumed dividend yield after scrip issue
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

LONDON STOCK EXCHANGE

Firm Wall St and more bid hints lift equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A fresh burst of takeover speculation, coming on top of the good recovery on Wall Street overnight and the US market's opening strength yesterday, helped London's equity market recoup much of the ground lost on Wednesday.

Such was the momentum behind the market that the FTSE 100 index got to within 6.5 points of its all-time closing high, closing a net 17.7 firmer at 4,042.1.

The day's most influential news came from across the Atlantic, where a bigger than expected fall in US housing starts in September and a rise in weekly jobless claims prompted a firm opening by US Treasury bonds, which in turn lifted the Dow Jones Industrial Average.

Afternoon news that Mr Boris Yeltsin, the Russian president, had sacked Mr Alexander Lebed, the national security adviser, caused a momentary wobble in markets on both sides of the Atlantic, but no lasting damage.

Dealers said London shares had responded enthusiastically to Wall Street, but some were concerned about the sluggish performance of gilts, which tended to lag behind the equity market and closed little changed on the day.

There was some uneasiness at the concentration of buying interest in the leaders at the expense of the FTSE 250 and SmallCap stocks. The 250 settled 5.9 up at 4,444.1 and the SmallCap 3.2 firmer at 2,192.1.

Panmure Gordon, the stockbroker, was among the keenest buyers in the market yesterday after hosting a conference for more than 100 European investment institutions, which were being addressed by senior executives from blue-chip stocks such as Glaxo, BT, Grand Met and British Airways.

Marketmakers said buyers had returned to the UK market, with many taking the view that there was a strong possibility of a good run towards the end of the year.

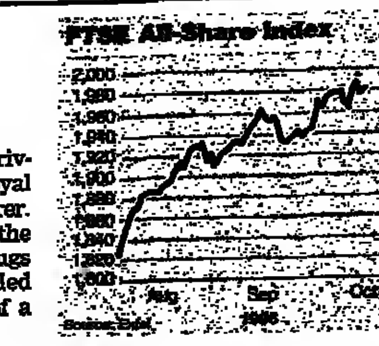
"We didn't panic when Wall Street was on the way down yesterday, when the domestic institutions preferred to sit back and see how the Dow would finish," said one marketmaker. He added that the market only needed one more of the big rumours to develop for the FTSE 100 to take another substantial step forward.

Among the big Footsie winners were the brewing giants Whitbread, Bass and Scottish & Newcastle, after they were given a strong push by a number of leading brokers, while the pick-up in US bonds and renewed takeover speculation were powerful driving forces behind Guardian Royal Exchange, the composite insurer.

The big takeover story of the day centred on Zeneca, the drugs group, whose shares spiralled upwards amid renewed talk of a bid from Roche.

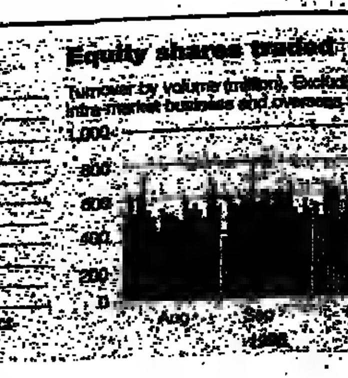
Turnover in equities came out at a very respectable 740.1m shares, split evenly between Footsie and other stocks. Customer business on Wednesday was worth £1.6bn. Tradepoint, the order-matching dealing system, enjoyed its most active trading session since its start-up just over a year ago and included a single deal of 5m Asda among its trades yesterday.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4042.1	+17.7	FT 30	2884.4	+28.8
FTSE 250	4444.1	+5.9	FTSE Non-Fins p/e	18.26	18.20
FTSE 350	2009.5	+7.5	FTSE 100 Fut Dec	4068.0	+11.0
FTSE All-Share	1982.94	+7.05	10 yr Gilt yield	7.54	7.54
FTSE All-Share yield	3.73	3.74	Long gilt/equity yld ratio	2.12	2.12

Best performing sectors
1 Breweries: Pubs & Rest .... +1.6
2 Pharmaceuticals .... +1.3
3 Transport .... +0.7
4 Engineering: Vehicles .... +0.6
5 Banks: Retail .... +0.6

Worst performing sectors
1 Gas Distribution .... −1.5
2 Tobacco .... −1.1
3 Water .... −0.5
4 Banks: Merchant .... −0.5
5 Extractive Industries .... −0.5

Keen US buyers of Reuters

Reuters Holdings, the news and financial information group, surprised the market with a sharp spike in the shares shortly before the close of trading yesterday.

On the trading front, a block of 2m shares traded at 763p – ostensibly by Goldman Sachs – led to tightness in the availability of the shares and a subsequent squeeze in the price.

The trade was thought to have been related to some active buying in the US which saw the American Depositary Receipts of Reuters jump $1.50 in the first two hours of trading, when the equivalent of some 2m shares changed hands.

This heralds a big presentation to analysts on Tuesday about the company's UK and Irish operations.

Reuters is also due to announce revenue figures next Friday and some analysts predict 9 per cent underlying growth against the same period last year. Finally, the company has recently launched a new system – Reuters 3000.

Mr Alastair Smellie of ABN Amro Hoare Govett said: "People have been overly concentrating on the possibility that they will return cash to shareholders and ignoring the fundamental value." Reuters lifted 18½ to 791½p.

Bass climbed 16½ to 795p and Whitbread rose 20 to 718p after the market took the view that plans by the Accounting Standard Board for the treatment of depreciation of assets would not hit brewers as badly as feared.

Share prices in the brewing sector have underperformed for some time in anticipation of the ASB's discussion paper.

UBS, in light of the paper, moved Bass from a "hold" to a "buy" and changed Whitbread from a "sell" to a "hold". UBS said it looked as if brewers could capitalise costs of repair and maintenance.

However, one analyst warned that the issue might not go away because the European Commission could run out of patience with the UK. Under European law, tangible assets normally have to be depreciated. The analyst said: "There is a relief factor, but the issue will dog the sector."

Zeneca broke through the £17 barrier as vague speculation combined with fundamental attractions to send the shares up 38¼ to 1726p – a new closing peak.

Superficially, the rise was prompted by a return of speculation that Roche of Switzerland is poised to launch a takeover.

The speculation has been around for almost a year, but continues to frustrate analysts who argue that the talk masks the fundamental attractions of the company. Mr James Culverwell of Merrill Lynch argues that, even at its current level, Zeneca is only on 20.7 times his 1997 forecasts and that compares with Eli Lilly on 21.2 times and Pfizer on 24 times. The US majors are reporting this week and coming up with encouraging figures.

Pearson, which owns the Financial Times, fell 11¼ to 676½p on the announcement of two senior appointments at the media conglomerate. Mrs Marjorie Scardino, chief executive of the Economist, which is part-owned by Pearson, will replace Mr Frank Barlow as chief executive, while Mr Dennis Stevenson, a non-executive director of Pearson, becomes deputy chairman.

Mr Jason Crisp, media analyst at SGST, said: "Some people are concerned about Pearson's strategy. There was a view that an external candidate with clout was needed to shake things up. Mrs Scardino may be very talented, but we do not know her. Her board, a very bright one, is also young and nobody has direct experience of running a FTSE 100 size company."

Mr Nick Ward of Crédit Lyonnais Laing said Pearson's share price would tread water until there was either better earnings growth or disposals.

Analysts said rumours of a disposal of Pearson's remaining stake in BSkyB took a back seat to the management changes.

Barclays touched a new year's high after a string of orders and a seminar for institutional investors and analysts. The shares gained 10½ to 986p.

HSBC improved 20¼ to 1294p with some dealers speculating about a one-for-one share split. At the current level, the share price is getting unwieldy for UK institutional investors who prefer stocks to be below £10. Any split would increase liquidity and thus tend to encourage buyers.

Dixons climbed 11 to 569p as UBS reiterated its "buy" stance and HSBC James Capel upgraded its forecast for the current year from £175m to £185m.

Argos fell 9 to 787½p as HSBC James Capel surprised the market by downgrading its forecast from £150m to £137m, after concern about extra distribution costs.

Asda hardened 1¼ to 113½p on trade of 30m. Analysts said that Asda, like most other retailers, would gain benefit from improving petrol margins, and the market was realising Tesco's price initiative was not going to affect Asda as badly as first perceived.

Rexam, the packaging company, slipped 5½ to 358½p on volume of 11m shares, as one block of 4m shares was reported at 357p a share. Shares have slid 11 per cent since the start of the month. Behind the stake sale there is apparently some concern that the new management has promised much but delivered little.

Yorkshire Electricity slipped with the sector, as the market fretted about future dividend prospects in the light of the latest pricing proposals by the regulator.

Yorkshire has been telling its tale to sector analysts this week and assuring them that, in spite of the certainty of a windfall tax following a Labour victory, a return of value to shareholders is very definitely on the cards. The shares ended the day 5 lower at 721½p.

Clothing manufacturer Claremont Garments dipped a penny to 206½p. The company is to close its factory in Glasgow with the loss of about 700 jobs.

Textile group Jacques Vert tumbled 12p to 29½p after the company warned of a poor second-quarter performance. Mining group RTZ shed 5¼ to 979p on news of a strike at its Kennecott copper smelter in Utah.

Plastic pipemaker Polypipe fell 2½ to 205½p after announcing that its chairman, Mr Kevin McDonald, sold 3m shares in the company at 202p a share to pay a tax bill.

Newman-Tonks, the architectural hardware group, shed 2½ to 101½p, continuing a decline that has seen the shares dive 30 per cent since May. Investors have stayed away, as Newman has failed to spot any signs of an upturn in the UK construction market.

FT 30 INDEX

	Oct 17	Oct 16	Oct 15	Oct 14	Oct 11	Yr ago	*High	*Low
FT 30	2884.4	2855.6	2866.1	2846.7	2842.7	2621.2	2885.2	2668.8
Ord. div. yield	3.97	3.98	3.99	3.98	3.99	4.05	4.22	3.76
P/E ratio net	17.38	17.30	17.30	17.32	17.27	16.01	17.46	15.80
P/E ratio nil	17.22	17.14	17.14	17.19	17.11	15.82	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2881.3	2883.6	2866.7	2866.3	2883.6	2883.7	2865.9	2864.6	2862.9	2888.6	2858.6

	Oct 17	Oct 16	Oct 15	Oct 14	Oct 11	Yr ago
SEAQ bargains	37,499	38,856	43,234	40,679	38,128	29,824
Equity turnover (£m)†	–	1598.4	1586.9	1277.7	1710.8	1606.6
Equity bargains†	–	34,299	36,315	36,323	34,452	34,611
Shares traded (mil)†	–	526.1	581.7	451.5	554.1	658.4

†Excluding intra-market business and overseas turnover.

	Oct 17	Oct 16	Oct 15	Oct 14	Oct 11	Yr ago	*High	*Low
FTSE AIM	1006.60	1005.60	1007.10	1010.60	1010.90	–	1140.40	965.70

 *For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	534	Total Highs	106	Total contracts	83,827
Total Falls	585	Total Lows	86	Calls	47,167
Same	1504			Puts	36,660

Oct 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4062.0	4068.0	+13.0	4077.0	4054.0	14479	83279
Mar	4085.0	4081.0	+13.0	4085.0	4085.0	50	400
Jun	-	4093.0	+13.0	-	-	0	328

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4476.0	+5.0	-	-	0	3571

FTSE 100 INDEX OPTION (LIFFE) (*4042) £10 per full index point

	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P
Oct	242	½	192	½	142	½	92	½	42	1	4½	13½	½	87	½	117
Nov	258½	4	209½	6½	160½	11	121½	18	83	30	50½	48½	26	77½	11½	117½
Dec	282	14	238½	20	195½	27½	156½	38½	117	52	85½	71	60	97½	38½	129½
Jan	298	24½	254	30½	214½	41	176	52	140	68	109	87	83	112	58½	141
Jun†	352	73			284	102½			221	137½			170½	185½		

Calls 12,382 Puts 17,454

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P	4175 C	4175 P
Oct	215½	½	165½	½	115½	½	65½	½	18½	3	1	34½	½	84½	1	134½
Nov	233	5	186½	9	142	13½	100½	22	65	36	36½	57½	17	87½	6½	126½
Dec	256½	16	213	21½	171½	30	134	42	101½	59	72½	79½	48½	105	26	135½
Mar	309½	51			226	74			169½	105			108½	140½		
Jun†	342	84½			272½	111½			210½	145½			157	187½		

Calls 23,988 Puts 11,467 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	288.8	337½	314½	AEA Technology	333½		L7.5	3.3	2.8	13.5
-	F.P.	3.42	85½	75	†Airtech	75		-	-	-	-
§	F.P.	125.4	179½	169½	Brunner Mond	169½	-½	W8.45	2.0	6.2	10.0
§135	F.P.	47.1	162½	152½	Charles Taylor	161½		L4.2	0.8	3.3	51.3
-	F.P.	27.8	90½	77½	Cruden Bay	80½	+½	-	-	-	-
150	F.P.	29.5	189½	160½	Deltron Electrn	160½		W2.75	2.9	2.1	15.2
§148	F.P.	37.1	246	148	†Elec Retail Sys	178½	-9	-	-	-	-
-	F.P.	11.8	316	310	†Eurasia Mining	312½	-2½	-	-	-	-
§90	F.P.	24.9	92½	89½	†Fitness First	90½		bW-	-	-	28.3
-	F.P.	20.4	£25½	£25½	GT Chile Growth	£25½	-½	-	-	-	-
§12.5	F.P.	1.83	15¾	13¾	†Grosvenor Land	15¾		-	-	-	-
-	F.P.	-	127	117½	Hartstone 8%	120½		-	-	-	-
-	F.P.	1,966	429	381½	Imperial Tobacco	382	-4	W20.0	2.5	6.5	7.7
-	F.P.	16.1	72½	60½	†Internet Tech	60½		-	-	-	-
-	F.P.	59.8	177	167½	Interoute Telecm	167½		-	-	-	-
§140	F.P.	33.6	160½	145½	Lavendon	157½		R3.4	3.8	2.7	12.3
-	F.P.	42.4	129½	126	Lomond Undrwring	128½		-	-	-	-
§10	F.P.	4.41	12¾	11¼	†Mears Group	12¼		K0.2	-	2.0	-
-	F.P.	1,061	£16½	£14¼	Millenium Chem	£14¼		Q60c	-	2.7	-
§154	F.P.	15.8	211	167½	Oriental Rest	205½		-	-	-	23.2
86	F.P.	13.1	105	83	†Personal No Co	84½		-	-	-	-
§95	F.P.	11.9	76½	67½	†Polydoc	89½		-	-	-	-
-	F.P.	35.8	170	132½	Shellbarns	138½		R4.0	2.1	3.6	11.4
170	F.P.	1,027	177	170	Thistle Hotels	170½	-1	R3.7	2.5	2.7	18.3
§250	F.P.	194.7	302	265½	Ultra Electn	299½		RW6.5	2.3	2.7	20.3
§	F.P.	-	62	52	†Victory Corp	55		-	-	-	-
§	F.P.	8.54	7¾	6¼	†Weeks Group	7¼		0.09	4.8	1.6	16.7

§ Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Oct 17	% chg on day	Oct 16	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1887.36	-0.6	1898.28	1896.47	1.82	-	2920.73	1722.93
Regional Indices								
Africa (13)	2465.96	-1.3	2497.69	2577.27	3.22	34.94	3553.86	2272.74
Australasia (6)	2147.37	-0.2	2151.56	2340.30	2.59	20.97	2827.34	2006.75
North America (12)	1690.08	-0.3	1695.99	1627.44	0.76	64.10	2186.39	1488.94

 "FT Gold Mines Index" is a trademark of The Financial Times Limited. Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Oct 17	Day's chge%	Oct 16	Oct 15	Oct 14	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4042.1	+0.4	4024.4	4050.6	4038.7	3578.6	3.87	2.05	15.79	151.22	1681.54
FTSE 250	4444.1	+0.1	4438.2	4448.9	4443.5	3938.2	3.44	1.55	23.46	154.16	1810.17
FTSE 250 ex IT	4477.2	+0.1	4471.3	4480.9	4477.1	3957.6	3.54	1.58	22.42	162.20	1827.66
FTSE 350	2009.5	+0.4	2002.0	2013.3	2008.1	1779.4	3.78	1.95	16.97	74.06	1707.86
FTSE 350 Higher Yield	1902.6	+0.2	1898.5	1912.9	1905.0	1772.0	5.08	1.83	13.40	95.88	1362.99
FTSE 350 Lower Yield	2123.4	+0.5	2112.6	2121.0	2118.3	1791.7	2.62	2.15	22.24	52.77	1484.39
FTSE SmallCap	2192.06	+0.1	2188.95	2188.35	2182.38	1965.68	3.10	1.58	25.59	58.99	1821.46
FTSE SmallCap ex IT	2189.44	+0.2	2185.87	2183.72	2177.60	1951.07	3.30	1.65	23.01	62.44	1832.17
FTSE All-Share	1982.94	+0.4	1975.89	1986.16	1980.98	1757.31	3.73	1.93	17.42	71.59	1710.71

FTSE Actuaries Industry Sectors

	Oct 17	Day's chge%	Oct 16	Oct 15	Oct 14	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3938.66	+0.4	3922.98	3958.64	3973.21	2943.33	3.53	1.63	21.76	128.05	1719.55
12 Extractive Industries(6)	4228.49	-0.5	4248.29	4256.65	4261.53	4221.39	3.84	2.66	12.24	162.00	1260.30
15 Oil, Integrated(3)	4076.10	+0.5	4055.02	4100.45	4114.54	2918.06	3.67	1.45	23.54	135.16	1826.65
16 Oil Exploration & Prod(15)	2932.68	+0.6	2915.33	2917.74	2944.77	1937.02	1.81	1.71	40.50	52.04	1777.00
20 GEN INDUSTRIALS(276)	2091.80	+0.1	2090.49	2104.08	2096.08	1987.89	4.09	1.74	17.60	72.33	1163.01
21 Building & Construction(34)	1216.66	.....	1217.05	1217.41	1215.79	910.47	3.47	1.48	24.32	37.60	1035.04
22 Building Matls & Merchs(29)	2011.33	-0.2	2014.85	2028.13	2028.53	1704.35	3.83	1.53	21.38	62.89	1031.40
23 Chemicals(25)	2464.09	-0.2	2468.86	2483.37	2485.32	2467.21	4.11	1.52	19.93	86.14	1167.78
24 Diversified Industrials(19)	1524.13	+0.1	1522.82	1533.22	1514.24	1757.72	6.66	1.62	11.58	89.36	878.68
25 Electronic & Elect Equip(37)	2363.92	-0.3	2370.22	2406.72	2411.40	2160.15	3.33	1.46	25.70	61.10	1245.05
26 Engineering(71)	2657.43	+0.3	2648.81	2654.90	2641.77	2178.02	8.06	2.46	16.48	64.75	1633.30
27 Engineering, Vehicles(14)	3263.27	+0.6	3242.31	3247.78	3232.23	2591.09	3.31	1.72	22.00	98.84	1720.21
28 Paper, Pckg & Printing(26)	2625.42	.....	2625.32	2647.10	2645.84	2868.27	3.97	1.82	17.29	86.60	1112.23
29 Textiles & Apparel(19)	1197.30	+0.4	1191.86	1195.66	1208.95	1571.29	5.96	1.16	18.01	50.38	744.05
30 CONSUMER GOODS(92)	3799.85	+0.6	3778.23	3786.85	3768.29	3437.22	3.76	1.95	17.07	127.76	1429.58
32 Alcoholic Beverages(8)	2826.04	-0.1	2829.70	2782.73	2766.46	2956.96	4.49	1.63	17.11	104.05	1038.66
33 Food Producers(25)	2626.80	+0.4	2616.28	2630.42	2616.22	2518.99	4.00	1.86	16.75	85.25	1204.98
34 Household Goods(15)	2729.27	+0.6	2712.13	2721.16	2719.76	2642.37	3.73	2.25	14.85	70.66	1052.90
36 Health Care(18)	2047.99	-0.2	2052.37	2067.68	2079.89	1974.10	2.88	1.95	22.25	54.40	1262.88
37 Pharmaceuticals(14)	5897.58	+1.3	5824.74	5851.79	5806.63	4561.43	2.65	2.05	21.38	162.93	2034.55
38 Tobacco(2)	6701.57	-1.1	3743.42	3790.20	3803.75	4553.10	7.00	2.11	8.47	262.07	953.22
40 SERVICES(255)	2642.39	+0.6	2627.59	2634.01	2614.76	2187.59	2.81	1.97	22.63	72.41	1394.40
41 Distributors(30)	2865.41	.....	2864.89	2870.04	2850.82	2705.59	2.98	2.02	20.76	73.30	1070.57
42 Leisure & Hotels(25)	3247.86	.....	3246.98	3240.99	3219.76	2554.48	2.89	2.03	22.90	172.88	1766.16
43 Media(45)	4550.93	+0.5	4528.02	4560.09	4489.62	3424.36	2.01	2.05	30.44	91.31	1665.51
44 Retailers, Food(15)	2006.19	+0.5	1996.53	1978.91	1966.96	2063.75	3.91	2.36	13.57	63.74	1297.30
45 Retailers, General(45)	2165.96	+0.5	2156.19	2164.53	2155.72	1799.54	2.97	2.08	20.29	62.23	1258.36
47 Breweries, Pubs & Rest.(22)	3144.63	+1.6	3095.85	3094.52	3074.04	2654.70	3.29	1.97	19.23	68.29	1524.83
48 Support Services(50)	2641.01	+0.6	2626.30	2626.09	2600.00	1867.82	1.85	2.26	29.84	43.60	1693.22
49 Transport(23)	2593.84	+0.7	2574.66	2592.48	2590.53	2204.47	3.65	1.12	30.65	62.14	1102.06
60 UTILITIES(33)	2235.98	-0.1	2239.30	2254.37	2263.74	2549.73	5.65	1.60	12.30	167.56	999.81
62 Electricity(12)	2301.25	-0.3	2308.40	2334.21	2357.90	2825.48	6.62	2.40	7.88	429.17	1246.11
64 Gas Distribution(2)	1285.22	-1.5	1304.42	1278.82	1253.22	1692.72	9.32	0.83	16.08	119.71	703.24
66 Telecommunications(8)	1906.66	+0.3	1902.64	1921.19	1925.58	2130.19	4.23	1.53	18.39	50.32	886.55
68 Water(11)	2124.50	-0.5	2136.17	2151.25	2187.10	2061.97	6.48	2.31	8.36	94.65	1201.55
69 NON-FINANCIALS(670)	2077.36	+0.3	2070.17	2079.88	2073.16	1860.80	3.73	1.83	18.26	76.26	1608.87
70 FINANCIALS(104)	3316.70	+0.4	3302.00	3326.82	3327.49	2780.57	4.00	2.38	13.15	121.83	1459.55
71 Banks, Retail(8)	4773.19	+0.6	4743.05	4781.40	4788.41	3800.79	3.81	2.71	12.13	175.98	1595.89
72 Banks, Merchant(6)	3848.49	-0.5	3868.84	3880.45	3833.81	3656.70	2.71	2.85	16.18	91.01	1237.33
73 Insurance(21)	1565.68	+0.3	1560.38	1578.11	1591.58	1429.14	5.36	2.26	10.25	71.33	1205.75
74 Life Assurance(8)	3849.08	+0.3	3835.10	3864.03	3833.68	3216.72	4.02	1.94	15.99	151.01	1635.22
77 Other Financial(20)	2692.37	+0.1	2690.17	2697.09	2694.71	2426.94	3.87	1.77	17.84	66.27	1581.36
79 Property(41)	1653.46	.....	1653.31	1658.72	1649.92	1359.98	3.88	1.26	25.56	47.47	1034.28
80 INVESTMENT TRUSTS(127)	3216.15	+0.1	3212.74	3228.48	3216.58	2950.32	2.21	1.12	50.59	59.67	1134.19
89 FTSE All-Share(901)	1982.94	+0.4	1975.89	1986.19	1980.98	1757.31	3.73	1.93	17.42	71.59	1710.71
FTSE Fledgling	1237.71	.....	1237.79	1238.64	1235.99	1078.70	2.80	0.66	65.69	29.12	1309.76
FTSE Fledgling ex IT	1247.96	.....	1248.03	1248.57	1245.73	1076.97	3.01	0.60	69.74	31.90	1322.37

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4032.9	4037.7	4040.9	4039.9	4036.7	4037.8	4041.1	4038.6	4041.8	4044.3	4031.1
FTSE 250	4439.2	4440.4	4443.3	4443.7	4443.1	4442.3	4442.9	4443.5	4443.2	4444.3	4439.1
FTSE 350	2005.4	2007.4	2008.9	2009.6	2007.3	2007.5	2008.9	2008.0	2009.2	2010.2	2004.9

Time of FTSE 100 Day's high: 9:41 AM Day's low: 3:22 PM. FTSE 100 1996 High: 4050.8 (15/10/96) Low: 3632.3 (18/07/96).

FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrn	1191.6	1191.9	1191.9	1191.3	1190.9	1190.8	1190.6	1190.8	1191.1	1191.4	[illegible]	-0.5
Pharmaceuticals	5800.7	5813.5	5824.5	5822.1	5816.2	5814.8	5818.0	5812.6	5829.0	5828.2	5768.5	+72.7
Water	2120.7	2122.3	2118.9	2118.6	2115.6	2115.8	2115.4	2109.8	2109.1	2121.2	[illegible]	-12.1
Banks, Retail	4826.5	4824.6	4831.3	4836.6	4830.5	4833.8	4833.8	[illegible]	4834.1	[illegible]	4807.4	+30.6

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. NAME CHANGES: Refuge now Utd Assurance (74) & (FTSE 250: Clydeport now Clydeport Operations (49) & (FTSE SmallCap)

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	108	489½	
ASDA Group†	30,300	113½	+1¼
Abbey National†	1,000	606	
Albert Fisher	26,200	42¾	+3¼
Allied Domecq†	6,200	478	-4½
Anglian Water	723	538½	-2½
Argos†	3,100	787½	-9
Arjo Wiggins	821	183	+1½
Assoc. Brit. Foods†	120	432	+½
Assoc. Brit. Ports	421	271	-2
BAA†	13,400	504½	-4½
BAT Inds.†	6,400	437½	-5
BBA	703	366	+3
BICC	881	304	+1½
BOC†	2,800	867½	-4½
BP†	6,000	677½	+3½
BPB Inds.	795	385	-1
BSkyB†	3,400	673½	+8
BT†	5,200	347½	-½
BTR†	6,500	262	-½
Bank of Scotland†	1,500	272	+3
Barclays†	2,200	986	+10½
Bass†	7,200	795	+16½
Blue Circle†	302	405	-½
Booker	363	405	+7
Boots†	962	843½	+½
Britannic	8	736½	
Brit. Aerospace†	1,700	1140	+7½
British Airways†	3,800	587	+6
British Biotech	401	199	
British Energy	17,100	122	+2½
British Gas†	7,700	189½	-3
British Land	117	485½	+½
British Steel†	2,700	183¼	-3
Bunzl	315	241½	+3
Burmah Castrol†	79	1100	-4
Burton†	2,200	160¾	+2¼
Cable & Wire†	2,200	437	+2½
Cadbury Schweppes†	1,800	521	+1
Caradon	800	269	-1
Carlton Comms.†	2,200	510	+½
Chubb	325	317½	+1
Coats Viyella	109	160½	+2
Comm. Union†	1,000	648½	-5
Compass	663	592	+2½
Cookson	786	249½	-4
Courtaulds†	608	457	-2½

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 17 / Sch)

BELGIUM/LUXEMBOURG (Oct 17 / Frs.)

CZECH REP (Oct 17 / Korun)

DENMARK (Oct 17 / Kr)

FINLAND (Oct 17 / Mka)

FRANCE (Oct 17 / Frs.)

GERMANY (Oct 17 / Dm.)

GREECE (Oct 17 / Drachma)

ITALY (Oct 17 / Lira)

NETHERLANDS (Oct 17 / Fls.)

NORWAY (Oct 17 / Kroner)

POLAND (Oct 17 / Zloty)

PORTUGAL (Oct 17 / Escudo)

SPAIN (Oct 17 / Pts.)

SWEDEN (Oct 17 / Kronor)

SWITZERLAND (Oct 17 / Frs.)

TURKEY (Oct 17 / Tk Lira)

PACIFIC

JAPAN (Oct 17 / Yen)

HONG KONG (Oct 17 / H.K.$)

INDONESIA (Oct 17 / Rupiah)

MALAYSIA (Oct 17 / MYR)

NEW ZEALAND (Oct 17 / NZ $)

SINGAPORE (Oct 17 / S$)

AUSTRALIA (Oct 17 / Aus$)

SOUTH KOREA (Oct 17 / Won)

TAIWAN (Oct 17 / TW $)

THAILAND (Oct 17 / Baht)

AFRICA

SOUTH AFRICA (Oct 17 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 17 / Can $)

4 pm close

MONTREAL (Oct 17 / Can $)

4 pm close

INDICES

US INDICES

Dow Jones	Oct 16	Oct 15	Oct 14	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6020.81	6004.78	6010.0	6020.81 (16/10)	5032.94 (10/1)	6020.81 (16/10/96)	41.22 (8/7/32)
Home Bonds	102.64	102.55	102.48	106.09 (14/2)	100.99 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2097.07	2105.28	2058.05	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	221.35	221.70	221.56	234.00 (12/2)	204.86 (30/7)	259.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 6056.21 (6077.83) Low 5943.80 (5951.12) (Theoretical♦)
Day's high 6021.16 (6044.29) Low 5969.38 (5970.87) (Actual♦)

Standard and Poors							
Composite‡	704.41	702.57	703.54	704.42 (16/10)	598.48 (10/1)	704.42 (16/10/96)	4.40 (1/6/32)
Industrials♥	833.48	830.62	831.90	833.48 (16/10)	702.07 (15/1)	833.48 (16/10/96)	3.52 (30/6/32)
Financial	74.15	74.21	74.48	74.86 (4/10)	58.67 (10/1)	74.86 (4/10/96)	7.13 (4/9/74)
NYSE Comp.	374.53	373.60	374.23	374.74 (7/10)	321.41 (10/1)	374.74 (7/10/96)	4.64 (25/4/42)
Amex Mkt Val	576.52	575.65	579.33	614.89 (22/5)	525.60 (16/7)	614.89 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1250.99	1258.10	1256.36	1258.10 (15/10)	988.57 (15/1)	1258.10 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Oct 11	Oct 4	Sep 27	Year ago
Dow Jones Ind. Div. Yield	2.16	2.15	2.17	2.42
	Oct 9	Oct 2	Sep 25	Year ago
S & P Ind. Div. yield	1.85	1.95	1.97	2.07
S & P Ind. P/E ratio	22.84	22.74	22.54	17.94

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
Pepsico	10,257,300	29½	+½
EMC	6,573,200	25½	+1⅜
Bay Ntwk	6,362,700	20½	-⅛
Compaq Cm	6,236,000	73⅛	-1½
AT & T	5,583,300	38⅜	+½
Vertione	4,843,100	33¼	-7⅜
Lucent Tch	4,293,100	48½	+1⅜
Olympic Fn	4,277,900	16¾	-3⅜
Motorola	4,274,000	49	+1⅛
Pharm Up	3,983,600	36⅞	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Oct 16	Oct 15	Oct 14
New York SE	441.396	458.871	321.998
Amex	14.894	17.617	11.806
NASDAQ	561.334	587.270	450.000
NYSE			
Issues Traded	3,238	3,242	3,220
Rises	1,132	1,060	1,213
Falls	1,217	1,307	1,074
Unchanged	889	875	933
New Highs	123	192	160
New Lows	40	45	26

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	708.90	710.65	+2.05	711.20	798.70	71,804	181,260
Mar	-	714.95	-	-	708.80	239	4,954

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	21440.0	21500.0	+70.0	21520.0	21370.0	15,367	203,487
Mar	21470.0	21520.0	+10.0	21520.0	21470.0	21	12,220

Open interest figures for previous day

♦ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation

INDEX FUTURES

■ CAC-40

■ DAX

■ OMX

■ SOFFEX

■ TOKYO - MOST ACTIVE STOCKS: Thursday, October 17, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Keisei Elect Ry	7.8m	1170	+40	Shinko Electric	2.9m	537	+12
Fuji Heavy Inds	5.6m	540		Mitsui Fudosan	2.6m	1490	+10
NKK Corp	4.8m	285	+1	Mitsubishi Motor	2.4m	958	+7
Nippon Soda	4.7m	992	+20	Sumitomo Seika	2.4m	848	+18
Tokyu Land Corp	3.7m	594	+15	Miyakoshi Corp	2.3m	710	-30

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4 pm close October 17

NEW YORK STOCK EXCHANGE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE PRICES

4 pm close October 17

53¾	43⅞	York Int	0.36	0.8	21	805	48⅝	47⅝	47⅝ -⅜
3⅞	3	Zapata	0.14	3.9	10	772	3¾	3⅝	3⅝
25¾	5⅞	ZenithEl			10	2346	15⅝	15¼	15¼ -¼
28⅞	21⅛	Zenith Nat	1.00	4.0	33	104	25¼	25¼	25¼
7¼	6½	Zenix Inc	0.72	10.1		118	u7¼	7⅛	7⅛ -⅛
22⅞	15⅛	Zero	0.12	0.6	16	234	20¼	19⅛	19⅜ -¾
25½	18½	Zurn Ind	0.40	1.6	21	214	25	24⅞	25
11⅜	10½	Zweig Fund x	1.08	9.8		173	11⅛	11	11
9	8¼	Zweig Tot x	0.84	10.0		602	8½	8⅜	8⅜

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX PRICES

4 pm close October 17

NASDAQ NATIONAL MARKET

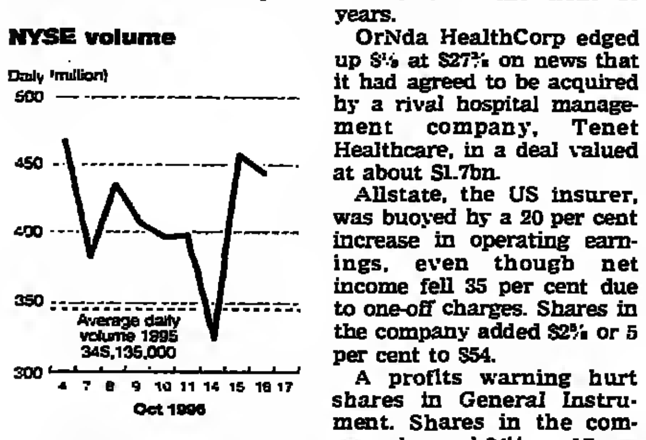
4 pm close October 17

Bond gains help Dow to rise further

AMERICAS

A rising bond market helped most US shares to add to Wednesday's gains at mid-session, in spite of continued declines in the high technology area, *writes Lisa Bransten in New York.*

By 1pm, the Dow Jones Industrial Average was 23.85 stronger at 6,044.66 and the Standard & Poor's 500 had added 2.64, putting both indices on course to surpass Wednesday's record closes.



The American Stock Exchange composite was off 0.04 at 576.48. Volume on the NYSE came to 279m shares.

The technology-rich Nasdaq composite slipped 2.97 at 1,248.02 as several of its largest issues, most of which are trading near all-time highs, gave up some ground.

Neither the stock nor the bond markets were troubled by political uncertainty in Russia caused by the removal of Mr Alexander Lebed, the national security chief.

Instead, the bond market rallied on signs that the housing sector, which had shown surprising strength until the end of the summer, began to slow in August.

In spite of declines in the high-tech sector, Apple Computer managed to climbed $1 at $26⅞ after surprising the market late on Wednesday by reporting a profit six months ahead of schedule. The troubled computer maker fell into the red earlier this year and was not expected to reverse its fortunes before 1997.

Coca-Cola added $⅞ at $49⅞, recouping some of the ground that it had lost earlier this week after reporting disappointing earnings.

The soft-drinks company announced yesterday that its board had authorised the repurchase of another 10 per cent of Coke's outstanding shares over the next 10 years.

OrNda HealthCorp edged up $⅛ at $27⅞ on news that it had agreed to be acquired by a rival hospital management company, Tenet Healthcare, in a deal valued at about $1.7bn.

Allstate, the US insurer, was buoyed by a 20 per cent increase in operating earnings, even though net income fell 35 per cent due to one-off charges. Shares in the company added $2⅞ or 5 per cent to $54.

A profits warning hurt shares in General Instrument. Shares in the company dropped $4¼, or 17 per cent, at $22⅞ after it said that weakness in the semiconductor sector would cause its fourth-quarter earnings to be flat or modestly below those made in the third quarter.

TORONTO turned lower in heavy midday trading with the composite index down 11.90, or 0.22 per cent, at 5,469.10. Traders said that stocks were still vulnerable to profit-taking following the recent rally.

Most of the 14 sub-groups were down, with mining stocks off 0.60 per cent and conglomerates 0.93 per cent lower. On the upside, merchandising was ahead 0.38 per cent.

Shares in Cameco dropped C$1.95 to C$61.50 after a broker's pessimistic report on the uranium company.

Suncor fell 65 cents to C$48 on sharply lower third-quarter earnings, in the first of an expected series of poor results in the integrated oil sector.

Caracas remains thin

CARACAS was flat in thin trade, *writes Peter Hall*, the IBC index falling 6.95, or 0.12 per cent, to 5,827.69 at mid-session.

Brokers said investors were staying on the sidelines, awaiting more news about the initial public offering of the state-owned telephone monopoly, CANTV.

The offering is expected in November and likely to give a boost to equities.

MEXICO CITY rose after speculative buying in the market leader, Telmex, which makes up about 25 per cent of the IPC index.

The index was up 32.61 at 3,295.62, but the peso's recent weakness continued to dampen enthusiasm.

SAO PAULO moved higher, with investors increasingly confident that the government's economic reforms were back on track. The Bovespa index was up 422 at 67,755.

S Africa picks up from lows

Johannesburg closed off its worst levels in fairly active trade, with industrials retracing some losses on US economic data and golds down on a weak bullion price.

Analysts said that the US jobless claims figures, which were largely in line with forecasts, pointed to a softening economy and improved sentiment in US bonds. The recovery of the rand also boosted sentiment together with some renewed demand for stocks at lower levels.

The overall index fell 14.8 to 7,008.1, industrials lost 7.8 to 8,252.4 and golds gave up 11.9 to 1,683.2.

De Beers lost 75 cents to R144.50, Kloof gained 10 cents to R38.80, Iscor shed 2 cents to 323 cents and Nedcor added 25 cents to R67.25.

Lagardère lights up Paris bourse

EUROPE

Lagardère lit up the PARIS bourse, celebrating its Thomson victory in champagne style. Its shares, suspended twice limit-up, hit FFr175 at peak before closing FFr31.50, or 23.7 per cent, higher at FFr164.60.

The bourse itself was rescued by Wall Street from early depression engendered by the day's spate of one-day strikes. The CAC-40 index, apparently untroubled by the Lebed sacking in Russia, closed the merest fraction below its day's peak at 2,165.81, up 6.81 in heavy turnover of FFr8.25bn.

The rationale for Lagardère included the FFr11bn recapitalisation which the French government is putting into the deal. This made it attractive in financial as well as industrial terms, said Mr Jean-Hughes de Lamaze at CS First Boston who, like other analysts, saw potential for some lucrative dismemberment of the enlarged group.

A part which is likely to be kept, Thomson-CSF, fell FFr2.90, or 1.8 per cent, to FFr158.30. Lagardère said on Monday that it would offer to buy in the Thomson-CSF minority, but only at FFr156 a share. However, SGS-Thomson, its semiconductors associate, caught some of the general excitement and leapt FFr24.50, or 9.4 per cent, to FFr286.50.

Meanwhile, Alcatel, which rose 2.4 per cent on Monday on its failure to win the Thomson bidding, rose further to close FFr6.80, or 1.5 per cent higher, at FFr462.50. Observers said that Alcatel might now be persuaded to concentrate on its core businesses.

FRANKFURT had a scrappy day on uncertainty about the Russian political situation, and turnover fell from DM8.4bn to DM7.3bn. But share prices did not seem unduly depressed by the Lebed sacking, the Dax index closing 12.44 higher at an Ibis-indicated 2,717.50.

There were contrasts in the automotive sector, where Daimler climbed DM1.82, or 2.1 per cent, to DM8.95, but Volkswagen fell DM2.75 to DM584. Daimler was helped by signals from the company that it was moving back to its roots as a transportation group.

VW hit DM578 at worst after a US judge, on Wednesday, denied a VW motion seeking to block the General Motors lawsuit accusing VW, and several of its top executives of stealing corporate secrets.

Another big faller was Adidas, the sportswear group, DM3.90, or 2.7 per cent, lower at DM142. The stock, lifted earlier this year by its exposure at a series of global sporting events, had come back from a peak of DM155 just seven days before.

ZURICH finished marginally higher, but once again found the SMI's 3,800 level an unassailable hurdle and the index finished 3.0 ahead at 3,793.2.

Sulzer, strong in recent sessions in the run up to yesterday's press conference, picked up another SFr2 to SFr762 as the company said that it was to cut 930 jobs at its Sulzer Rueti weaving machine business. Analysts said that lower group profit expectations had prompted some selling which limited the day's rise.

Ciba and Sandoz saw renewed demand from US and British investors after the recent weak streak, which included switching into Roche after its upbeat sales and profits figures. Ciba picked up SFr2 to SFr1,591 and Sandoz was SFr3 higher at SFr1,497.

MILAN ended a day of largely technical trading with the Comit index 2.93 lower at 616.61, but the real time Mibtel index 59 higher at 9,885.

Montedison held above the L1,000 level as analysts pointed to its anti-cyclical strengths and how it would gain from a fall in interest rates. The share finished L16.7 higher at L1,016.

Fiat recovered L77 to L4,085 after hitting lows earlier in the week on concern over weakness in the domestic car market.

Olivetti held on to a L5.7 advance to L477.4 after Mediaset denied press reports that it was interested in taking over the troubled information technology group. Mediaset rose L36 to L7,319.

AMSTERDAM featured the biotech company, Artu, and the CD production systems maker, Toolex Alpha, as the AEX index closed 0.74 lower at 589.74.

Artu rose another Fl 1.50 to Fl 10.50, having doubled this month in volumes well in excess of an earlier average of around 20,000 shares a day. Some dealers said that a Dutch investment magazine had tipped the stock.

Toolex, however, fell Fl 8.80 to Fl23.60 after it warned of a slowdown in orders. The bourse cancelled all trades in the shares before 1330 GMT, citing "inequality of information" ahead of the warning.

HELSINKI was confused by the Lebed affair, but it still closed with the Hex index 13.9 higher at 2,236.1.

The market fielded a raft of eight-monthly results. Within these, Rauma, the engineer, fell FM5 to FM86, although it reported a 16 per cent increase in profits, but Metsa-Serla, in forestries, climbed 60 penni to FM29.50 as it talked of a focusing on core businesses.

Written and edited by William Cochrane and Michael Morgan

FTSE Actuaries Share Indices — THE EUROPEAN SERIES

Oct 17 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1769.87	1770.06	1770.65	1770.73	1770.91	1770.71	1772.45	1771.25
FTSE Eurotrack 200	1827.15	1827.06	1828.07	1827.53	1829.17	1829.04	1828.22	1828.76

	Oct 16	Oct 15	Oct 14	Oct 11	Oct 10
FTSE Eurotrack 100	1769.99	1774.44	1759.17	1756.66	1754.35
FTSE Eurotrack 200	1825.03	1831.79	1812.80	1808.54	1800.45

Base value 1000 (26/10/90); High/day: 100 - 1773.53; 200 - 1829.91 Low/day: 100 - 1769.93 200 - 1824.85. † Partial
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Moscow falls 3% on Lebed sacking

Moscow took an increasingly cautious view of the day's fast-moving political developments as President Boris Yeltsin responded to talk of a "creeping coup" by sacking his security chief, Mr Alexander Lebed, writes Michael Morgan.

The Moscow Times index fell 3 per cent, closing at its low for the day, down 9.49 at 311.40.

Analysts were divided on the immediate outlook. Some believed shares had further to fall, others that prices could rise in response to Mr Yeltsin's show of strength. However, much would depend on Mr Lebed's reaction to the dismissal.

Dealers noted that Standard & Poor's and Moody's, the US credit rating agencies, had moved swiftly to reaffirm the better than expected ratings recently awarded to Russia.

S & P said that it had already factored in a risk far greater than Mr Lebed's removal while Moody's said that its rating took into account "expectations of more political changes or jockeying".

Mr Philip Poole at ING-Barings said that since Mr Lebed had insisted that he remained a potential presidential candidate, there had been no change in the political risk. He maintained that, from the varied perspectives of the relationship between debt and equity prices, fundamental considerations and market technicals, Russia still looked good value.

Mr James Cornish at NatWest Markets, also upbeat on the longer term outlook for Russian equities, said little was known about Mr Lebed's views on economic affairs.

However, his main adviser did not appear to favour swift economic reform. "Mr Lebed's departure will not harm the current course of economic policy. He may remain a presidential candidate, but the circumstances of his departure are unlikely to add to his popularity."

New Zealand stages fifth gain in a row

ASIA PACIFIC

Post-election WELLINGTON staged its fifth successive gain, with the NZSE 40 Capital index closing 22.73 stronger at a 32-month high of 2,348.71, in turnover of NZ$80.5m.

Brokers said there was value in the market, with the uncertainty surrounding last Saturday's election reduced by the poor showing of the left-wing Alliance Party and hopes of an interest rate cut some time this year. This is in spite of the Reserve Bank's statement on Wednesday that it saw no scope for a further easing in current monetary conditions.

MANILA extended its recovery to a second day, the composite index breaking the 3,000 resistance level with a gain of 77.49, or 2.6 per cent, to 3,061.06.

The property sector, battered in the past two weeks, led the rise. Ayala Corp B rose 1.50 pesos, or 5.7 per cent, to 28 pesos on the view that it had been oversold. Manila Electric continued to outperform, the B shares rising by 12 pesos, or 6.45 per cent, to 198 pesos.

TOKYO played it safe ahead of Sunday's national election, the Nikkei average coming to a marginally higher finish in thin trading, *writes Gwen Robinson.*

Traders said that equities were taking a breathing spell, and predicted that pre-election jitters would keep many participants inactive today, maintaining the market's virtual standstill.

The 225 index gained 26.55 to 21,423.74 after moving between 21,330.11 and 21,462.77. Volume fell to an estimated 230m shares from 307.5m. The Topix index of all first-section stocks rose 1.67 to 1,602.57, and the capital-weighted Nikkei 300 by 0.26 to 300.61. Advances led declines by 559 to 449 with 211 unchanged.

In London, the ISE/Nikkei 50 index rose 2.22 to 1,463.11.

Growing poll indications that the conservative LDP might win a majority lifted stocks in sectors such as construction, civil engineering and real estate, which were expected to benefit from the party's promised Y5,000bn stimulus package.

Among construction issues, Shimizu rose Y20 to Y1,100 and Kajima Y10 to Y1,040. In real estate, Mitsui Fudosan moved up Y10 to Y1,490 and Mitsubishi Estate Y30 to Y1,520.

Retailers lost ground, in spite of favourable department store sales figures for September. Isetan lost Y20 to Y1,560 and Mitsukoshi Y10 to Y1,060. However, the supermarket operator, Ito-Yokado, eased only Y20 to Y6,000 on reports of a 4.9 per cent fall in its half-year profits to September.

Japan's two leading airlines were hit by news that they were planning new discounted domestic flight services. Japan Airlines, still suffering from reports that it will shortly announce a decline in first-half profits, dipped a further Y10 to Y697. All Nippon Airways fell Y10 to Y1,000.

Keisei Electric Railways, a leading shareholder in Oriental Land, which operates Tokyo Disneyland, was the most actively traded stock of the day, surging Y40 to Y1,170 on expectations of the imminent listing of Oriental Land.

In Osaka, the OSE average rose 6.37 to 21,928.14, in volume of 15.04m shares. Roland Corp soared Y400, or 20 per cent, to Y2,400 on news that the maker of electronic keyboard instruments would provide Microsoft with digital data for musical sounds to be used in personal computer software.

SEOUL was dominated by Daewoo Electronics on news that it was to buy the French consumer electronics maker, Thomson Multimedia, from Lagardère.

Daewoo Electronics ended limit-high at Won7,420, up Won420. Daewoo Heavy Industries gained Won300 to Won7,300, Daewoo Corp Won280 to Won7,880 and Daewoo Telecom Won500 to Won10,600. The broader market was pulled back by late profit-taking and the composite index ended 4.56 better at 839.73.

BANGKOK extended its technical rebound into a second day as investors shrugged off the central bank's postponement of measures to limit the amount of foreign loans that offshore units of foreign and local banks could import for domestic relending.

The SET index closed 12.78 higher at 929.61 in turnover of Bt3.5bn. Bangkok Bank, Thailand's largest commercial bank, topped the active list, gaining Bt3 to Bt188. National Finance and Securities gained Bt2.50 to Bt51.50 and Advanced Info Service surged Bt22 to Bt338.

HONG KONG survived bouts of profit-taking and rallied to a higher close, led by continued strength in banks. The Hang Seng Index closed 40.62 higher at 12,436.80, turnover dipping to a still healthy HK$6.9bn.

HSBC closed up HK$1.50 at HK$153 after matching its all-time intra-day high of HK$153.50. Analysts noted that share had outperformed the market by about 8 per cent over the past 12 months.

Sun Hung Kai, which resumed trading on Thursday, fell HK$0.30 to HK$2.10 following its announcement of a two-for-five rights issue aimed at raising HK$496m to reduce debt and provide working capital.

KUALA LUMPUR's bluechips ended moderately higher, although much of the day's attention was focused on small-capitalised stocks once again.

The composite index rose 1.59 to 1,158.42, while the Second Board index rallied to 2.4 per cent higher.

Khong Guan and *Sriwani* were among the most actively traded stocks, up 10 and 5 cents respectively at M$24.90 and M$6.20.

COLOMBO topped the 600 mark for the first time in nearly four months. The CSE index ended 5.36 higher at 605.03 on expectations of better third-quarter corporate performances and an investor-friendly budget next month.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY OCTOBER 16 1996								TUESDAY OCTOBER 15 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	214.20	0.1	200.38	151.65	171.21	180.01	0.0	4.23	214.05	200.56	151.99	171.43	180.04	214.20	178.77	184.55
Austria (24)	178.76	−1.0	167.23	126.73	142.88	142.78	−1.2	1.87	180.59	169.21	128.21	144.88	144.52	195.04	168.11	172.05
Belgium (27)	216.80	0.5	202.82	153.70	173.29	169.33	0.2	3.84	215.64	202.24	153.24	172.88	168.96	221.99	191.12	192.41
Brazil (28)	187.17	−0.4	175.10	132.69	148.61	353.10	−0.4	1.78	187.87	176.03	133.38	150.46	354.39	189.70	123.87	148.90
Canada (116)	176.04	−0.2	164.68	124.80	140.71	172.70	−0.1	2.06	176.32	165.21	125.18	141.22	172.83	176.32	134.14	144.03
Denmark (30)	333.23	−0.2	311.74	236.24	266.36	288.91	−0.5	1.72	333.81	312.78	236.99	267.34	268.13	333.81	276.89	284.28
Finland (23)	216.33	−0.2	202.38	153.37	172.92	208.54	−0.4	2.40	216.78	203.10	153.89	173.60	209.29	251.92	171.73	251.92
France (93)	199.26	−0.2	186.41	141.26	159.27	162.81	−0.3	2.99	199.64	187.08	141.74	159.89	163.05	200.00	167.70	171.55
Germany (58)	179.87	−0.3	168.27	127.52	143.78	143.78	−0.5	1.72	180.37	169.00	128.05	144.45	144.45	180.37	155.88	160.05
Hong Kong (59)	466.80	−0.8	436.70	330.94	373.13	463.40	−0.8	3.30	470.59	440.94	334.10	376.89	467.13	470.59	354.87	388.89
Indonesia (27)	200.96	−0.7	188.00	142.47	160.63	286.32	−0.7	1.78	202.45	189.69	143.73	162.14	288.26	−	−	−
Ireland (16)	304.37	−0.4	284.74	215.78	243.29	267.57	−0.3	3.35	305.55	286.30	216.93	244.71	268.35	308.44	241.27	250.11
Italy (58)	76.32	−1.5	71.40	54.11	61.00	87.51	−1.1	2.35	77.47	72.59	55.00	62.05	88.48	84.53	67.22	71.87
Japan (480)	144.44	0.0	135.13	102.40	115.46	102.40	−0.1	0.75	144.39	135.29	102.51	115.64	102.51	164.68	137.75	144.38
Malaysia (107)	576.75	−0.0	539.55	408.88	451.01	556.80	0.0	1.16	576.76	540.43	409.49	461.93	556.70	585.09	425.77	466.45
Mexico (27)	1198.74	−0.6	1121.43	849.84	958.16	10236.12	0.2	1.37	1205.62	1129.56	855.86	965.46	10210.93	1325.65	791.93	998.06
Netherland (19)	309.69	−0.2	289.71	219.55	247.54	243.88	−0.4	3.02	310.30	290.75	220.30	248.51	244.76	310.88	251.81	256.79
New Zealand (15)	90.23	0.1	84.41	63.97	72.12	68.75	0.0	3.99	90.18	84.50	64.02	72.22	68.78	90.23	75.94	80.05
Norway (35)	264.38	−0.5	247.33	187.43	211.32	234.26	−0.5	2.17	265.73	248.98	188.65	212.82	235.50	265.73	222.24	236.67
Philippines (22)	185.90	2.3	173.91	131.79	148.59	243.32	2.3	0.69	181.70	170.25	129.00	145.52	237.83	−	−	−
Singapore (43)	377.74	0.8	353.38	267.79	301.93	246.05	0.9	1.13	374.87	351.25	266.14	300.23	243.89	465.21	361.94	370.10
South Africa (44)	348.57	−1.3	326.09	247.12	279.62	346.84	−1.1	2.21	353.23	330.97	250.78	282.89	350.59	437.76	314.20	362.26
Spain (37)	183.65	−0.8	171.81	130.20	146.80	179.92	−0.8	3.27	184.75	173.11	131.17	147.97	181.32	184.75	145.15	148.18
Sweden (48)	391.37	−0.8	366.13	277.45	312.83	383.76	−0.8	2.23	394.63	369.77	280.17	316.05	386.98	395.12	294.19	311.40
Switzerland (37)	245.15	−0.8	229.35	173.81	195.96	192.34	−0.7	1.54	246.68	231.11	175.11	187.54	193.76	254.34	219.07	221.73
Thailand (45)	113.88	1.5	106.52	80.72	91.01	112.62	1.6	3.05	112.17	105.10	79.64	89.94	110.89	188.95	112.17	166.20
United Kingdom (213)	256.77	−0.5	240.21	182.04	205.24	240.21	−0.8	3.82	257.96	241.71	183.14	206.60	241.71	257.96	222.29	226.29
USA (623)	286.93	0.3	268.43	203.42	229.35	286.93	0.3	2.08	286.19	268.15	203.18	229.20	286.19	286.93	238.38	238.86
Americas (784)	262.40	0.2	245.47	186.02	209.74	220.63	0.2	2.07	261.81	245.31	185.87	209.66	220.11	262.40	215.17	218.23
Europe (718)	222.18	−0.4	207.86	157.52	177.60	193.68	−0.8	2.96	223.18	209.11	158.44	178.74	194.77	223.18	181.44	194.82
Nordic (136)	334.04	−0.6	312.48	236.81	267.00	289.69	−0.7	2.17	336.09	314.92	238.61	269.17	290.87	336.09	261.13	287.95
Pacific Basin (876)	159.84	−0.0	149.53	113.32	127.76	114.73	−0.1	1.22	159.85	149.77	113.48	128.02	114.87	177.01	148.86	156.28
Euro-Pacific (1594)	185.69	−0.2	173.72	131.65	148.43	144.50	−0.3	2.09	186.11	174.38	132.13	149.05	145.00	190.57	166.51	171.88
North America (739)	280.21	0.2	262.14	198.65	223.98	279.37	0.2	2.07	279.54	261.93	198.46	223.88	278.89	280.21	230.17	233.09
Europe Ex. UK (505)	198.81	−0.4	185.99	140.95	158.92	186.52	−0.5	2.39	199.67	187.09	141.76	159.81	187.40	200.25	170.51	173.90
Pacific Ex. Japan (396)	297.04	−0.2	277.88	210.59	237.43	256.34	−0.2	2.88	297.61	278.77	211.22	238.27	256.76	297.51	243.59	259.24
World Ex. US (1809)	187.54	−0.2	175.45	132.96	149.91	149.51	−0.3	2.06	188.00	176.18	133.47	150.57	150.02	191.55	167.38	172.70
World Ex. UK (2219)	214.94	0.0	201.09	152.38	171.81	183.92	0.0	1.88	214.90	201.36	152.57	172.11	183.96	214.94	185.81	189.79
World Ex. Japan (1952)	258.19	0.0	241.54	183.04	206.38	244.29	−0.1	2.42	258.30	242.02	183.38	206.87	244.47	258.30	217.26	220.10
The World Index (2432)	218.55	0.0	204.46	154.94	174.69	169.02	−0.1	2.08	218.81	204.83	155.20	175.08	169.17	218.81	188.87	192.97

PLEASE NOTE: Amendments to indices 16/10/96 applied to USA, related regional indices and The World Index. CONSTITUENT CHANGE 17/10/96: Name change: Oracle Systems to Oracle Corp. (USA). Latest prices were unavailable for this edition